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New South Wales
TREASURY

Crown Entity

Annual Report 2006-07

New South Wales
TREASURY

Administration

The Crown Asset and Liability Management Branch in the Budget and Financial Management Directorate of NSW Treasury is responsible for the administration of the Crown Entity.

Contact Details

The Crown Asset and Liability Management Branch is located on:
Level 15,
Governor Macquarie Tower
1 Farrer Place, Sydney

Reception Hours
Monday to Friday
8.30 am to 5.30 pm

Inquiries may be directed to:
The Director,
Crown Asset and Liability Management
Telephone:(02) 9228 4396.
Fax :(02) 9228 3210

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This report is available on the NSW Treasury Office of Financial Management (OFM) web site: www.treasury.nsw.gov.au

Total external costs associated with the production of this annual report were $2,211.00 (GST included)
October 2007
ISSN: 1440-2181

This is the third volume of New South Wales Treasury's Annual Report for 2006-07.

This volume includes details of the agencies and the funds administered by New South Wales Treasury for the Crown Entity:

- **Consolidated financial statements for the Crown Entity which includes the Crown Finance Entity and the Consolidated Fund, and**
- **Financial Statements of the Crown Entity's controlled activities,**

  comprising the accounts of:

  - **NSW Self Insurance Corporation**
  - **Liability Management Ministerial Corporation**
  - **Electricity Tariff Equalisation Ministerial Corporation**
  - **Crown Lands Homesites Program**
  - **Land Development Working Account**
  - **Crown Leasehold Entity**
  - **Crown Property Portfolio.**

The annual reports for the Office of Financial Management (OFM) and the Office of State Revenue (OSR) are included in separate volumes.

The NSW Self Insurance Corporation also issues its own annual report as required by its founding legislation.

Crown Entity Charter

The purpose of the Crown Entity is to manage and report on service-wide assets, liabilities and transactions that are the overall responsibility of the government rather than being the responsibility of individual departments and statutory bodies.

This ensures that financial statements of individual agencies only cover those matters over which they have direct control.

Highlights of 2006-07

- Liability Management Ministerial Corporation balance of $7,175 million transferred to State Super
- Treasury Managed Fund Government self insurance scheme remains fully funded with net assets of $849 million

Statement of Financial Position ($m)

	30 June 2007	30 June 2006
Total Liabilities	37,517	45,450
Total Assets	17,599	23,792
Net Liabilities	19,918	21,658

The reduction in net liabilities between 30 June 2006 and 30 June 2007 is mainly explained by:

Superannuation

Unfunded superannuation liabilities reduced by $8,506 million mainly due to the transfer of the $7,175 million balance from the Liability Management Ministerial Corporation to State Super. The transfer amount will ensure that NSW fully uses it's remaining Commonwealth pre July 1988 Funding Tax Credits after recent changes to the tax legislation.

The other major reason for the reduction was an increase in the discount rate from
5.9 % as at 30 June 2006 to
6.4 % as at 30 June 2007.

The international accounting standard AASB 119 requires the recalculation of superannuation liabilities each year using a discount rate equal to the actual long-term government bond rate as at 30 June.

Higher than forecast investment returns offset the increase in gross liabilities resulting from active members additional year of service.

Financial Assets

Financial asset decreased by $6,800 million mainly due to the transfer of the Liability Management Ministerial Corporation balance which was partly offset by higher than assumed investment returns.

State Rail Authority

Due to the Government's decision to wind up the State Rail Authority as an operational entity, the Crown Entity accepted several of its major liabilities as at 30 June 2007. These were $387 million superannuation, $170 million borrowings and $11 million workers compensation.

Other Liabilities

The balance of the movement in net liabilities mainly resulted from increases in payables and bank overdraft.

Highlights of 2006-07

- Crown provided grant funding of $960 million to the Transport Infrastructure Corporation to repay project borrowings for the new Epping to Chatswood rail link
- Recurrent agency appropriations were $1,734 million higher than 2005-06 reflecting the Government's priorities in the ageing and disability, health and education sectors

Statement of Financial Performance ($m)

	2006-07	2005-06
Total Revenues	41,467	39,769
Total Expenses	39,613	35,911
Loss on Disposal of Non-Current Assets	(85)	(61)
Surplus	**1,769**	**3,797**

The Crown surplus was achieved after providing grant funding of $960 million to the Transport Infrastructure Corporation.

This was to repay project borrowings for the new Epping to Chatswood rail link.

There was a negative superannuation expense of $1,695 million for the year reflecting the fall in the liability.

The liability reduction is mainly due to an increase in the liability valuation discount rate from 5.9% to 6.4 % which reflects the higher Commonwealth ten year bond rate.

In 2006 the discount rate also increased, from 5.2 % to 5.9 %, causing the liability and related expense to fall.

AASB 119 will result in reported superannuation liabilities, expenses changing significantly from year to year even if the underlying member benefit obligations do not change materially.

Recent advice from the scheme's actuary, Mercer Human Resource Consulting, confirms that general government sector superannuation liabilities are expected to be fully funded by 2030.

This is based on current forecasts of Crown and other employers cash contributions to State Super.

Liability Management

Highlights of 2006-07

- Treasury Managed Fund self insurance scheme Workers Compensation and Public Liability obligations continue to fall for the year ended 30 June 2007

NSW Self Insurance Corporation

The Treasury Managed Fund (TMF) self insurance scheme is a self insurance scheme owned and underwritten by the Government.

It covers workers compensation, public liability and other insurance liabilities for all general government sector Budget dependent agencies. Other public sector agencies may apply to join the TMF on a voluntary basis.

The scheme's overall purpose is to assist member agencies in reducing risk exposures and thereby maximise resources available to support their core business activities. The TMF provides incentive "hindsight adjustments" to member agency premiums to encourage best management practices.

Workers compensation claims management of the TMF is distributed between three claims managers, Employers Mutual Limited, Allianz Insurance Limited and GIO General Limited. The claims management for all other general insurance is provided by GIO.

There are also separate long term contracts for risk management (Suncorp), reinsurance (Benfield) and actuarial services (PricewaterhouseCoopers and Taylor Fry).

This new claims management model allows for more active in-house management and effectively reduces the systemic risk associated with a single provider. This in turn provides a more competitive environment.

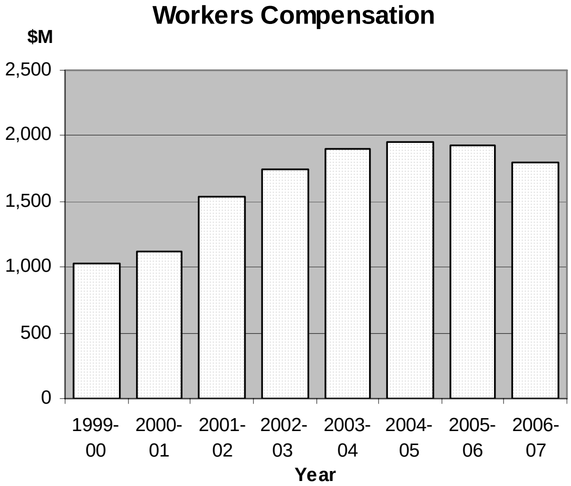
TMF outstanding claims liabilities have continued to fall, in 2007 as shown below in Chart 1, due to the impact of the Government's tort reform legislation, success of the multi-provider claims management model and improved agency occupational health and safety outcomes.

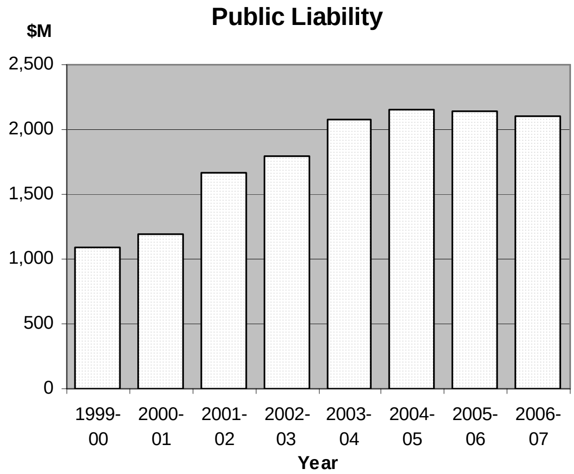
Key SICorp functions are outsourced to the Crown Assets and Liabilities Management (CALM) branch of NSW Treasury.

Services provided by CALM are:

- administration
- cash management
- banking
- accounting; and
- budgeting

Chart 1: Outstanding Claims





Highlights of 2006-07

- Insurance cash claim payments continue to decline as shown in Chart 2

Reserve Funding Policy

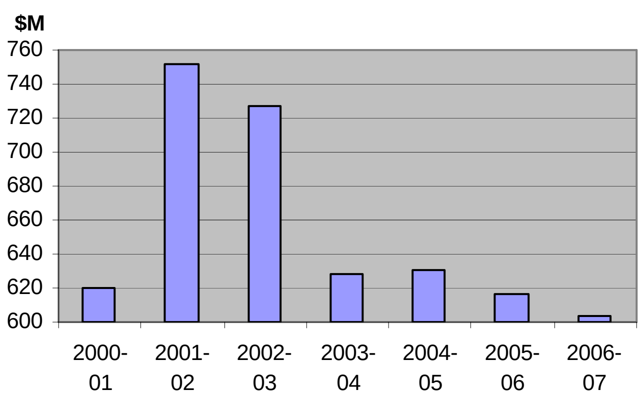
In March 2006, Treasury established an Insurance Reserve Policy dictating an appropriate level of reserves for the TMF. This policy sets TMF's reserve at 10 % above outstanding claims liabilities, plus the amount of reinsurance retention that the fund would retain for a single loss.

The adequacy of the fund's reserves will be reviewed annually based on the financial results as at 31 December.

Following the review of the fund as at 31 December 2006, a surplus above the insurance reserve requirement was identified. The net surplus assets position allowed for a transfer of $910 million to the Consolidated Fund. This follows an injection of $1 billion to the General Government Liability Management Fund in the previous year. SICorp remains in a sound financial position and is fully-funded with total assets exceeding total liabilities by $849 million. This strong result is due to:

- improvements in the current claims environment resulting in continual decline of cash claim payments due to government tort law reforms
- better than expected investment returns.

Chart 2: SICorp Cash Claims Payments



Professional Standards Legislation

All states and territories have now enacted Professional Standards legislation.

The NSW Government is committed to continuing its work with all jurisdictions to achieve greater national consistency, with a focus on proportionate liability.

Long Term Care for the Catastrophically Injured - Lifetime Care & Support Scheme

The Motor Accidents (Lifetime Care and Support) Act 2006 established a scheme for people who suffer catastrophic injuries resulting from motor vehicle accidents. The Act extends the NSW Compulsory Third Party (CTP) scheme to provide lifetime care and support for persons who are catastrophically injured.

The scheme replaces lump sum damages awards for medical treatment and care on a 'no-fault' basis. That is, a person will not be required to prove negligence in order to be eligible for the scheme. It guarantees lifetime support and care regardless of who is at fault, and removes the financial burden on victim's families and communities.

From 1 October 2006 the scheme began for children under the age of 16 years injured in motor accidents and will cover adults from 1 October 2007. It is managed by the Motor Accidents Authority.

State Rail Authority

As at 30 June 2007, the State Rail Authority was wound up with its outstanding workers compensation insurance liabilities becoming the responsibility of the Crown Finance Entity.

Allianz Insurance Australia has been appointed the claims management provider.

HIH Liabilities

The NSW Government assumed liability for outstanding compulsory third party claims under policies in force with HIH prior to 31 December 2000, and assumed liability for claims under home warranty insurance policies with HIH prior to 15 March 2001.

Outstanding claims liabilities assumed by the NSW Government were over $700 million. In 2006-07 about $52 million in claim payments were made to holders of former HIH compulsory third party and home warranty policies. After payments and an acturarial revaluation, outstanding claims have fallen to $130 million. During 2006-07 the Government received $94 million from the HIH liquidators.

Assistance to Local Councils affected by HIH Collapse

The HIH collapse also had an adverse impact on a number of local councils insured with HIH. The NSW Government negotiated a 50/50 funding arrangement with the Commonwealth to provide financial assistance to local councils which had a judgement against them that would have been met by HIH policies.

The NSW Government has provided assistance to Evans Shire Council, Balranald Shire Council, Ballina Shire Council, Clarence Valley Council and Nundle Shire Council. By 30 June 2007, the NSW Government had paid $9 million to local councils who suffered financial difficulty meeting HIH debts.

Community Insurance

Following the NSW Government's tort law reform and introduction of the Civil Liability Act 2002, the Civil Liability Amendment (Personal Responsibility) Act 2002 and the Civil Liability Amendment Act 2003, the insurance industry continues to display signs of recovery with both affordability and availability of public liability insurance improving.

Superannuation Liability Management

Triennial Review

The State Super Trustee Corporation appointed the actuarial firm, Mercer Human Resource Consulting, for the triennial review of the four defined benefit schemes that make up the State Super Fund which are the State Superannuation Scheme, the State Authorities Superannuation Scheme, the Basic Benefit Scheme and the Police Superannuation Scheme. The comprehensive review covered the demographic experiences over the three year period to June 2006 and the long-term economic assumptions underlying the triennial review calculations. The review resulted in changes to underlying assumptions used by the Trustee to calculate unfunded superannuation liabilities, in accordance with AAS25. (on a funding basis) including:

- investment return assumption on assets held to fund pension liabilities was increased from 7% to 7.7 % reflecting their tax free status. Approximately half of the State Superannuation Fund assets fund pension liabilities. This percentage will grow to 100 % over time as members retire.
- The weighted average liability discount rate was increased, from 7% to 7.3% to reflect this changed assumption; and
- higher pensioner mortality and longer deferral of retirement (both reducing liabilities) and an increased rate of disability in the Police Superannuation Scheme and the increased assumed rate of employees taking pensions (both increasing liabilities).

The actuary found that over the triennium to June 2006, unfunded superannuation liabilities fell by $6.3 to $10.4 billion mainly due to higher than expected investment returns ($5.1 billion) and the net impact of the changed actuarial assumptions, ($1.2 billion). With the introduction of AASB 119 Employee Benefits for the financial year ended 30 June 2006, Crown Entity valued liabilities using a discount rate based on the long-term Commonwealth government bond rate as at 30 June 2007.

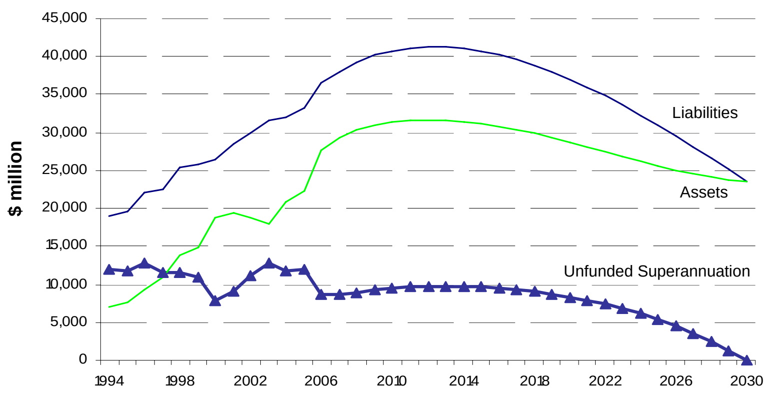
Superannuation Funding Plan

The Government's long-term funding plan addresses State Super Scheme liabilities calculated on a funding basis. This is the basis on which trustees of State Superannuation defined benefit schemes are required to report the financial position of their schemes. General government sector net unfunded superannuation liabilities should peak in 2013.

Recent actuarial advice from Mercer confirms that the general government sector superannuation liabilities are expected to be fully funded by 2030 based on current planned employer cash contribution levels.

In this context, "fully funded" means that by 2030 no further employer contributions will need to be made. The amount of reserves at that time, plus expected investment returns for the remainder of the life of the State Super schemes will be sufficient to fund future expected benefit payments. **Chart 3 below** shows the State's long-term superannuation funding plan relating to the four defined benefit superannuation schemes that make up the State Super Fund (also know as the Pooled Fund).

Chart 3: Crown Funding Plan



The plan is calculated on a funding basis because it accurately reflects the level of liabilities that need to be funded.

Based on this measure, gross liabilities as at 30 June 2007 were approximately 77 % funded.

Until the mid 1990's, superannuation was largely funded on a "pay-as-you-go" basis.

Cash employer contributions were made to only match emerging benefit payments to members.

Over the last ten years, contributions have been greater than benefit payments.

Table 1 below demonstrates the financial benefits of the government policy of moving to full funding of superannuation liabilities.

For the four year period ending 30 June 2011, Crown cash contributions totalling $3.7 billion, to the State Super fund are significantly below actual benefits paid to members.

If the Government had adopted a "pay-as-you-go" approach, contributions would have had to equal benefits paid.

During the financial year the Government transferred the balance of the General Government Liability Management Fund to the State Super Fund.

The transfer of these funds will realise the Government's remaining pre-July 1988 funding credit entitlement under Commonwealth income tax legislation.

Previously it had been assumed that contributions totalling $8.7 billion would be made in 2006-07.

This contribution was revised down to $7,175 million following changes in Commonwealth tax legislation

Table 1: Crown Employer Contributions Compared to Forecast Benefits Payments

	Estimate $m				
	2007-08	2008-09	2009-10	2010-11	Total
Member Benefit Payments	2,488	2,673	3,118	3,275	11,554
Contributions	902	925	948	971	3,746
Difference	1,586	1,748	2,170	2,304	7,808

Crown Finance Entity Debt Portfolio

The Crown debt portfolio is managed by the NSW Treasury Corporation (TCorp) to meet the objectives of:

- minimising the market value of debt within specified risk constraints; and
- minimising the cost of debt.

The Crown debt portfolio comprises core, strategic and tactical portfolios. TCorp, as debt manager, adopts a passive approach except for the tactical portfolio where an active management style aims to add value relative to a benchmark portfolio. The memorandum of understanding between Treasury and TCorp governs the management of the portfolios. It includes a requirement to adhere to finance expense budget allocations, which are agreed at the beginning of each financial year.

The General Government Debt Management Committee consisting of representatives of TCorp, Treasury and the Roads and Traffic Authority meets quarterly to monitor debt strategy.

Public Authorities (Financial Arrangements) Act 1987

The Public Authorities (Financial Arrangements) Act 1987 (PAFA Act) outlines regulatory controls to manage risks resulting from government agencies' financial arrangements.

It regulates the powers of government agencies to borrow, use derivatives, invest, use funds managers and enter into joint ventures or joint financing arrangements.

The Crown Finance Entity, is responsible for the Act's administration.

Treasury and its PAFA risk management advisor, Deloitte, reviews the risk management policies and procedures of selected agencies based on an assessment of their risk levels.

Agencies with large borrowing/ investment exposures are reviewed by Deloittes. Crown Finance Entity reviews the others, which are mostly general government sector budget dependent agencies.

The reviews focus on determining the robustness of the agencies' risk management framework.

Crown Finance Entity surveys are distributed to the selected agencies to examine the adequacy of agencies' staff, computer systems, risk management systems, internal reporting procedures and policy documents.

The following table shows PAFA risk reviews undertaken by Deloitte and Treasury for the year ended 30 June 2007.

PAFA Risk Review Program
Number of Reviews

Reviewed by	2006-07
Consultant: Mainly Public Trading Enterprises and Public Financial Corporations	**27**
Treasury: Mostly General Government agencies	**41**

Financial Asset Management

The Role of Assets in Financial Management

The Government's approach to financial management is to hold financial assets to meet liabilities as they fall due.

Financial assets are also held in the State Super Fund to enable the Government to meet future State Super pension and lump sum superannuation entitlements.

Financial assets are held by SICorp to ensure that the Government's self-insured liabilities can be met as claims are made.

Financial assets are accumulated to ensure that taxpayers at the time the liability is incurred meet the cost of the liability, rather than place undue burden on future generations.

The Government manages the level of its financial assets to achieve the key fiscal targets in the Fiscal Responsibility Act 2005, namely:

- reducing the general government sector's net financial liabilities to 6 % of gross state product by 2015
- eliminating total State sector unfunded superannuation liabilities by 30 June 2030.

Table 2: SICorp Asset Class Returns

Asset Class	2006-07 (%)	2005-06 (%)
Bonds	3.47	2.97
Cash	6.42	5.70
Australian shares	27.05	23.76
Australian Indexed shares	28.22	23.66
International shares	6.54	21.64
International Indexed shares	7.82	20.10
Listed property	15.99	18.50
International Bonds	3.55	-
Average	**9.45**	**10.90**

∗ Investment in the International Bond Sector commenced on 26 July 2006.

Table 3: SICorp Asset Portfolio Investment Returns

Year Ended 30 June	Growth (% p.a.)
2003	3.80
2004	9.66
2005	9.37
2006	10.90
2007	9.45
Average 2 Years	10.17
Average 3 Years	9.91
Average 5 Years	8.61

Investment Returns – SICorp

As at 30 June 2007, SICorp's investment (inclusive of cash and cash equivalents) total about $5.0 billion.

The investments of SICorp are held by the NSW Treasury Corporation (TCorp) in its TCorp Hour-Glass facilities or directly in a managed bond portfolio.

A memorandum of understanding between TCorp and SICorp details investment policies and procedures and sets benchmarks for each asset class.

SICorp 2006-07 asset class returns are shown in Table 2 at left.

Investment performance Table 3 above is monitored by the Crown Entity Asset Management Committee, for the purpose of co-ordinating the management of the large amount of funds held centrally by the State.

The Committee has representatives from both Treasury and TCorp.

Investment Returns - State Super

State Super's strategic asset allocation of 74.5% growth assets, 25.5 % defensive assets remains within a margin of plus or minus five%.

The Fund's asset allocations are reviewed formally at least once a year and are constantly monitored during the year.

Strategic Asset Allocations

The target strategic asset allocation of SI Corp and State Super are shown in the Pie Charts below**.**

Current and long term investment performance is shown in Tables 4 and 5.

SICorp

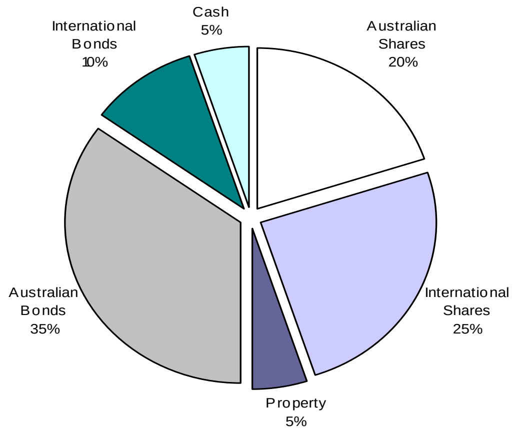


Table 4: State Super Investment Asset Class Returns

	2006-07 (%)	2005-06 (%)
Australian Equities	27.7	24.3
International Equities	10.1	20.4
Private Equity	32.4	29.7
Unlisted Infrastructure	22.1	13.3
Property		
-Australian Direct	20.0	21.3
-Australian Listed	26.1	18.0
-International Listed	17.6	*
Australian Fixed Interest	3.6	2.9
International Fixed Interest	5.1	0.8
Cash	6.5	5.8
Average	**15.1**	**16.1**

* full year return information not available

State Super

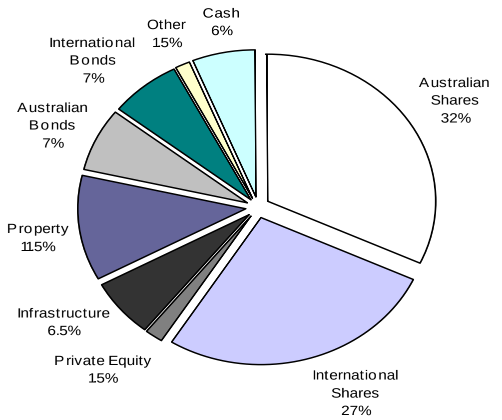


Table 5: State Super Portfolio Investment Returns

Year Ended 30 June	Investment Return (% p.a.)
2003	-1.7
2004	13.5
2005	13.0
2006	16.1
2007	15.1
Average 2 Years	15.6
Average 3 Years	14.7
Average 5 Years	11.0

Crown Entity Programs

Program	Objectives	Description
Debt Servicing Costs	▪ To meet Crown debt servicing and related costs on loans, advances made to the State by the Commonwealth, and on NSW Treasury Corporation loans. ▪ Payment of interest to Treasury Banking System member agencies.	Debt administration, management of the Crown portfolio and cash management of the Treasury Banking System in conjunction with the NSW Treasury Corporation.
Refunds and Remissions	▪ To provide petrol and other subsidy payments and refunds where appropriate.	Payment of petrol subsidies, to northern NSW retailers to maintain competitiveness and to provide GST compensation to clubs.
Other Asset and Liability Management Activities	▪ To provide funding for assumed Crown superannuation costs and past service accrued liabilities. ▪ To provide asset/liability management services for cash, superannuation, insurance and other liabilities.	Periodic payments towards costs of accrued defined benefit employer superannuation liabilities. Compensation payments for risks not covered under insurance arrangements, working capital advances, interest subsidies and State Bank loan indemnity claims.
Natural Disasters Relief	▪ To alleviate hardship suffered by individuals as a result of bushfires, floods, drought and other natural disasters. ▪ To restore community assets damaged by natural disasters.	Provision of funds to various departments and authorities (including local government) involved in administering joint Commonwealth/ State schemes.

Crown Entity Undertakings

Consolidated Fund

Activities are principally the collection of State taxation, Commonwealth grants and financial distributions from public trading and financial enterprise sector agencies on behalf of the New South Wales Government.

Payments mainly comprise recurrent and capital appropriation payments to general government budget dependent agencies.

Crown Finance Entity

As detailed in program objectives and descriptions (refer page 10).

NSW Self Insurance Corporation

The NSW Self Insurance Corporation (SICorp) administers the insurance liabilities and financial assets of the Treasury Managed Fund (TMF), the Government Workers' Compensation Account and the Transport Accidents Compensation Fund.

The TMF is a self-insurance scheme owned and underwritten by the Government.

It provides a full range of covers and services for its members.

Fund members include all general government budget dependent agencies, all public hospitals and a number of other government authorities.

Liability Management Ministerial Corporation

The Liability Management Ministerial Corporation was established to manage the General Government Liability Management Fund, (GGLMF).

The Fund balance was transferred to State Super during 2006-07.

Electricity Tariff Equalisation Ministerial Corporation

The Fund manages purchase cost risk for electricity retail suppliers of small retail customers in New South Wales.

Crown Lands Homesites Program

The program administers the development and sale of residential Crown Lands homesites in urban areas.

Land Development Working Account

The account administers the development of Crown land for residential purposes in country New South Wales and for commercial purposes on a State wide basis.

Crown Property Portfolio

Activities relate to management of a portfolio of Crown rental and other real estate assets of the State where ownership or control has not been passed to individual agencies.

This also includes the refurbishment of Crown owned buildings under the Government's CBD Asset Strategy.

From 1 July 2007 the Crown Property Authority became part of the new State Property Authority.

Crown Leaseholds

This entity collects Crown land purchase instalments and generates revenue from leases, licences and permissive occupancies.

It reports on the value of vacant Crown land.

New South Wales
TREASURY

Crown Entity

Consolidated Financial Report
for the year ended
30 June 2007

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

CROWN ENTITY

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Crown Entity, which comprises the consolidated balance sheet as at 30 June 2007, and the consolidated operating statement, statement of recognised income and expense and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Qualified Auditor's Opinion

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to satisfy myself as to the value of Crown reserves, the financial report:

- presents fairly, in all material respects, the financial position of the Crown Entity as of 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 45E of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

My opinion should be read in conjunction with the rest of this report.

Basis for Qualified Auditor's Opinion

As disclosed in Note 2 Summary of Significant Accounting Policies, the Crown Entity is undertaking a project to identify and value the Crown reserves it controls under the *Crown Lands Act 1989*. Until that project is completed, I am unable to obtain all the information I require to form an opinion on the value of those Crown reserves that should be recognised as land in the financial report.

My audit report for the year ended 30 June 2006 referred to the same matter.

Secretary of Treasury's Responsibility for the Financial Report

The Secretary of Treasury is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Secretary of Treasury, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Crown Entity,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Independence

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

A. T. Whitfield

A T Whitfield
Deputy Auditor-General

SYDNEY
25 October 2007

CROWN ENTITY

STATEMENT BY DEPARTMENT HEAD

Pursuant to Section 45F of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

(a) The accompanying consolidated financial report exhibits a true and fair view of the financial position of the Crown Entity as at 30 June 2007 and the transactions for the year then ended; and

(b) The consolidated financial report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005*, the Treasurer's Directions and Australian Accounting Standards.

I am not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.

John Pierce
Secretary
19 October 2007

CROWN ENTITY

CONSOLIDATED OPERATING STATEMENT
for the year ended 30 June 2007

	Notes	2007 $000	2006 $000
Income			
Taxation, Fines and Regulatory Fees	3(a)	18,790,012	16,601,992
Commonwealth Grants	3(b)	17,566,147	17,895,429
Financial Distributions	3(c)	1,870,785	1,689,720
Sale of Goods and Services	3(d)	1,012,346	1,128,069
Investment Income	3(e)	936,371	999,412
Share of Profit of an Associate	6	23,765	73,791
Other	3(f)	1,267,616	1,380,199
Total Income		**41,467,042**	**39,768,612**
Expenses Excluding Losses			
Superannuation - Defined Benefit Plans		(1,694,822)	(2,059,528)
Long Service Leave		392,811	399,139
Maintenance		21,056	19,128
Depreciation and Amortisation		25,421	43,412
Grants and Subsidies	4(a)	1,184,082	79,288
Borrowing Costs	4(b)	1,075,921	1,048,323
Insurance Claims	4(c)	259,764	418,550
Recurrent Appropriations	35	34,125,462	32,391,869
Capital Appropriations	35	3,082,424	2,695,648
Other	4(d)	1,141,535	875,407
Total Expenses		**39,613,654**	**35,911,236**
Loss on Disposal of Non-Current Assets	5	(84,587)	(60,501)
SURPLUS FOR THE YEAR		**1,768,801**	**3,796,875**

The accompanying notes form part of these financial statements.

CROWN ENTITY

CONSOLIDATED BALANCE SHEET
AS AT 30 June 2007

	Notes	2007 $000	2006 $000
ASSETS			
Current Assets			
Cash and Cash Equivalents	28	739,584	1,007,839
Financial Assets at Fair Value	7	123	1,500,121
Derivative Financial Instruments	18	4,537	3,146
Advances Repayable to the Crown	8	46,869	151,294
Inventories	9	12,944	17,467
Receivables	10	3,193,748	2,426,044
Assets Held for Sale	12	30,641	24,290
Other		30	-
Total Current Assets		**4,028,476**	**5,130,201**
Non-Current Assets			
Property, Plant and Equipment	11	6,824,399	6,606,561
Investment in an Associate	6	749,390	752,719
Financial Assets at Fair Value	7	4,871,830	10,172,258
Advances Repayable to the Crown	8	908,144	926,931
Inventories	9	4,962	3,751
Receivables	10	193,089	176,833
Investment Property	13	15,718	15,718
Intangible Assets	14	3,016	6,560
Other		52	180
Total Non-Current Assets		**13,570,600**	**18,661,511**
Total Assets		**17,599,076**	**23,791,712**
LIABILITIES			
Current Liabilities			
Payables	16	780,718	443,234
Bank Overdraft		2,919,691	2,488,809
Borrowings	17	2,260,901	1,481,682
Derivative Financial Instruments	18	-	3,374
Unfunded Superannuation	19	902,000	-
Employee Benefits and Other Provisions	20	2,815,252	2,747,911
Provision for Outstanding Insurance Claims	21	639,144	672,339
Deferred Income	32	21,419	21,920
Other	33	163,833	154,880
Total Current Liabilities		**10,502,958**	**8,014,149**
Non-Current Liabilities			
Payables	16	42,407	70,026
Borrowings	17	8,132,266	8,896,536
Unfunded Superannuation	19	13,520,460	22,928,806
Employee Benefits and Other Provisions	20	290,808	279,097
Provision for Outstanding Insurance Claims	21	3,736,908	3,889,398
Deferred Income	32	222,956	235,959
Other	33	1,067,980	1,136,281
Total Non-Current Liabilties		**27,013,785**	**37,436,103**
Total Liabilities		**37,516,743**	**45,450,252**
Net Liabilities		**(19,917,667)**	**(21,658,540)**
EQUITY			
Asset Revaluation Reserve	22	2,873,463	2,394,829
Retained Deficit	22	(22,791,130)	(24,053,369)
Total Equity		**(19,917,667)**	**(21,658,540)**

The accompanying notes form part of these financial statements.

CROWN ENTITY

STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 30 June 2007

	Notes	2007 $000	2006 $000
CHANGES IN EQUITY - OTHER THAN TRANSACTIONS WITH OWNERS AS OWNERS			
Net Increase in Property, Plant and Equipment Asset Revaluation Reserve	22	487,855	200,526
Transfer of Asset Revaluation Reserve for Assets Held for Sale	22	(40)	-
Property, Plant and Equipment Transfer Out - Admin Restructure	22	-	200
Other Net (Decrease)/Increase in Equity	22	(1,335)	2,322
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		**486,480**	**203,048**
Surplus for the Year		1,768,801	3,796,875
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR		**2,255,281**	**3,999,923**
EFFECT OF CHANGES IN ACCOUNTING POLICY AND CORRECTION OF ERRORS			
Adoption of AASB 139/TPP 06-07 Accounting for Financial Instruments	22	-	89,377
TOTAL CHANGES DUE TO CHANGES IN ACCOUNTING POLICY		**-**	**89,377**

The accompanying notes form part of these financial statements

CROWN ENTITY

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 June 2007

	Notes	2007 $000	2006 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee Related		(7,590,520)	(277,092)
Grants and Subsidies		(1,232,357)	(146,306)
Borrowing Costs		(798,037)	(848,228)
Recurrent Appropriation	35	(34,125,462)	(32,391,869)
Capital Appropriation	35	(3,082,424)	(2,695,648)
Other		(1,587,788)	(2,032,275)
Total Payments		**(48,416,588)**	**(38,391,418)**
Receipts			
Taxation, Fines and Regulatory Fees		18,178,089	16,712,694
Sale of Goods and Services		1,111,716	1,286,270
Commonwealth Grants	35	17,491,172	17,970,403
Interest Received		961,849	1,006,759
Financial Distribution from Non-Budget Sector		1,810,973	1,359,920
Other		1,288,166	1,676,123
Total Receipts		**40,841,965**	**40,012,169**
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	29	**(7,574,623)**	**1,620,751**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Investments		170	(2,302,966)
Purchase of Property, Plant & Equipment		(95,096)	(101,417)
Advances Made		(37,349)	(42,026)
Other		61	40,686
Proceeds from Sales of Investment		6,794,722	209,463
Proceeds from Sales of Property, Plant & Equipment		89,866	64,426
Advance Repayments Received		180,210	127,850
Dividend Received from Investment		29,000	40,600
Proceeds of Capital Restructure	35	184,000	49,000
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		**7,145,584**	**(1,914,384)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Borrowings and Advances		20,167	579,290
Repayment of Borrowings and Advances		(177,608)	(255,811)
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES		**(157,441)**	**323,479**
CASH FLOWS TO GOVERNMENT			
Transfer of Funds to State Property Authority		(112,657)	-
NET CASHFLOW TO GOVERNMENT		(112,657)	-
NET (DECREASE)/INCREASE IN CASH		**(699,137)**	**29,846**
Opening Cash and Cash Equivalents		(1,480,970)	(1,510,816)
CLOSING CASH AND CASH EQUIVALENTS	29	**(2,180,107)**	**(1,480,970)**

The accompanying notes form part of these financial statements

CROWN ENTITY

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

Notes Index

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

1. CROWN ENTITY INFORMATION

Reporting Entity

The Crown Entity is a government department for financial reporting purposes under section 45A (1A) of the *Public Finance and Audit Act 1983*. As a separate reporting entity, it reports on the following Crown finance and property transactions:

Crown Finance Entity

The Crown Finance Entity manages the Crown's financial assets and financial liabilities. This includes:

- the Crown debt portfolio
- the Crown superannuation agency group
- long service leave liability for certain general government budget dependent agencies now in the non-budget dependent sector.

It is also responsible for miscellaneous finance activities, such as providing grants and subsidies to public sector bodies. It acts as the residual entity for whole-of-government transactions that are not the responsibility of any other state public sector agency.

Consolidated Fund

The Consolidated Fund collects state taxation, Commonwealth grants and financial distributions from the non-budget dependent agencies. Payments comprise recurrent and capital appropriation payments to budget dependent agencies. Note 35 details the Fund's receipts and payments.

Other consolidated Crown entities are:

NSW Self Insurance Corporation (SICorp)

SICorp operates under the NSW Self Insurance Corporation Act 2004. It is a statutory body that largely provides self-insurance coverage for general government budget dependent agencies.

SICorp includes the:

- NSW Treasury Managed Fund (TMF)
- Pre-Managed Fund Reserve
- Governmental Workers Compensation Account (GWC)
- Transport Accidents Compensation Fund (TAC).

Crown Lands Homesites Program

This entity develops and sells urban Crown land for residential home sites.

Land Development Working Account

This entity develops and sells Crown land for residences in country NSW and for commercial purposes state-wide.

1. CROWN ENTITY INFORMATION (Cont)

Crown Property Portfolio

This entity manages the subleasing of multiple occupancy buildings to public sector agencies, heritage properties and industrial sites.

Electricity Tariff Equalisation Ministerial Corporation

This corporation manages the Electricity Tariff Equalisation Fund (ETEF) which oversees purchase-cost risk management for electricity suppliers of small retail customers.

Crown Leaseholds Entity

This entity collects Crown land purchase instalments and generates income from leases, licences and permissive occupancies. It reports on the value of vacant Crown land.

Liability Management Ministerial Corporation (LMMC)

This corporation manages the General Government Liability Management Fund (GGLMF). The Fund invests accumulated Crown funds pending the payment of Crown employer contributions to the SAS Trustee Corporation superannuation fund.

Crown Entity

These financial statements combine those activities as a single economic entity. The statements do not include inter-entity transactions and balances.

Notes 25, 26 and 27 detail the contingent liabilities and assets and/or guarantees for specific activities. The Report on State Finances lists State sector contingencies/guarantees.

Its main business address is 1 Farrer Place, Sydney NSW 2000.

This financial report was authorised for issue by the Secretary of NSW Treasury on the date of accompanying statement by the Secretary was signed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

This consolidated financial report is a general purpose financial report which meets all Australian Accounting Standards (AASBs), including:

- Australian equivalents to International Financial Reporting Standards (AEIFRS)
- all requirements of the *Public Finance and Audit Act 1983*
- the Public Finance and Audit Regulation 2005
- Treasury Accounting Policy Statements.

Legislative provisions prevail where there are any inconsistencies between these requirements. Because of its unique structure, the Crown Entity is exempt from the Financial Reporting Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

The financial statements have been prepared on a historical cost basis, except for:

- investment property
- land and building
- derivative financial instruments
- held-for-trading investments
- available-for-sale investments.

These assets are measured at fair value. Assets held for sale are measured at the lower of the carrying amount or fair value less costs to sell.

Motor vehicles on finance lease are initially recorded at fair value. Each vehicle is then reduced on a straight line basis to its residual value over the life of the lease.

The financial notes include the key judgements, assumptions and estimations management have applied affecting the financial statements.

All amounts are rounded to the nearest 1,000 in Australian dollars ($'000).

STATEMENT OF COMPLIANCE

Financial Reporting Council (FRC) has mandated that early adoption of standards is not permitted.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2007. These are listed as follows:

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replacing the presentation requirements of financial instruments in AASB 132 *Financial Instruments: Presentation*. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007. This standard will have no direct impact on the amounts included in the entity's financial statements.
- AASB 2005-10 *Amendments to Australian Accounting Standards (September 2005)* makes amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 101 *Presentation of Financial Statements (October 2006)* makes amendments to align more closely with International Financial Reporting Standards (IFRS) requirements. AASB 101 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2007-4 *Australian additions to, and deletions from, IFRS*: The AASB has released Omnibus Amending Standard 2007-4 *Amendments to Australian Accounting Standards arising from ED 151* and Other Amendments. 35 standards have been amended to reinstate optional accounting treatments contained in IFRS but initially omitted from AEIFRS and to remove disclosure requirements not contained in IFRS. AASB 2007-4 is applicable to reporting periods beginning on or after 1 July 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

- AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* (June 2007). AASB 2007-6 is applicable for annual reporting periods beginning on or after 1 January 2009.
- AASB Interpretation 4 *Determining whether and Arrangement contains a Lease* (February 2007). AASB Interpretation 4 is applicable for annual reporting periods beginning on or after 1 January 2008.
- AASB Interpretation 10 *Interim Financial Reporting and Impairment* (September 2006). AASB Interpretation 10 is applicable for annual reporting periods beginning on or after 1 November 2006.

Other standards, amendments and Interpretations which are issued recently but are not effective and not applicable to the Crown Entity are not listed here.

The initial application of AASB 7, AASB 2005-10 and AASB 101 is not expected to have an impact on the financial results of the Crown Entity as these are concerned only with disclosures. The Crown Entity will adopt these in the 2008 financial year.

BASIS OF CONSOLIDATION

The consolidated financial report is the financial report of the Crown Entity and the entities that it controls at 30 June each year. Each Crown controlled entity prepares its own financial report using consistent accounting policies.

Consolidation occurs on the date when the Crown Entity or its entities are given control. Consolidation stops on the date when control is transferred elsewhere.

INCOME

Income is recognised as probable economic benefits to the Crown Entity that can be reliably measured. It uses the following criteria to identify income:

Taxation, Fines and Regulation Fees

The Crown Entity recognises state taxation by:

- measuring government-assessed income when assessments are issued, mainly for land tax
- recognising taxpayer-assessed income when the tax collecting agency receives the funds, such as for payroll tax and stamp duty. It recognises additional income after reviewing taxpayers returns
- recognising fees when the cash is received, such as RTA fees
- measuring and recognising fines when issued, such as court fines. It recognises additional income from overdue fines
- recognising all other infringements when the cash is received, such as Infringement Processing Bureau fines.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

Commonwealth Grants

Commonwealth grants help NSW meet expenditure responsibilities. Specific purpose grants are for both recurrent and capital purposes. Grants are recognised as income when cash is received, except for a Commonwealth-documented prepayment where the Crown Entity recognises the receipt as a liability in the financial statements.

Financial Distributions

These are dividends, income tax equivalents and sales tax equivalents that some general government non-budget dependent agencies, public trading enterprises and public financial enterprises pay. They are recognised in the period when they are earned.

Insurance Premiums

Insurance premiums are recognised to income over the period of the insured risk.

Property Rentals

Income from property rentals is recognised on a straight-line basis over the lease term.

Investment Income

Income is recognised as interest accrued by using the effective interest method. The Crown Entity calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate method discounts estimated future cash receipts through the expected life of the financial asset.

EXPENSES

Employee Benefits and Other Provisions

Wages, Salaries, Annual Leave and Sick Leave

The Crown Entity has no employees. Its work is done by staff from:

- the Department of Commerce
- the Department of Lands
- Landcom
- NSW Treasury Corporation (TCorp)
- NSW Treasury.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

SICorp insurance claims are administered by GIO General Limited, Allianz Australia Insurance Limited, and Employers Mutual Limited. Crown Entity pays these administration costs.

The Crown Entity is staffed by the Crown Asset and Liability Management Branch in the NSW Treasury. The Crown Entity pays these staffing costs.

Superannuation

The Crown Entity recognises an unfunded superannuation liability for the defined benefit schemes. It is the difference at balance date between the present value of forecast employees' accrued benefits and the estimated net market value of the superannuation schemes' assets.

Each year, an actuary assesses the liability using data the Pillar Administration maintains for the SAS Trustee Corporation, and the most recent Triennial Review actuarial economic assumptions.

The present value of accrued benefits is based on expected future fund membership payments to the balance date of the contributory service of current and past State Government employees.

In calculating the liability, forecasts are made for:

- expected future wage and salary levels
- expected future investment earning rates
- Consumer Price Index (CPI) growth rate
- experience of employee departures
- periods of service.

It is calculated based on the latest Triennial Review actuarial economic assumptions, except for the discount rate, which is based on the long term Commonwealth government bond rate which is adjusted annually, if appropriate, to recognise the extra long term nature of superannuation liabilities at the reporting date. AASB 119 Employee Benefits requires the discount rate to be revised each year and tied to the actual long term Commonwealth government bond rate

The pension accounting costs are accrued using the projected unit credit method. The cost of pensions is charged to operations to spread the cost over the service lives of current and past employees. Independent actuaries do a full valuation of the plans every three years. Actuarial gains and losses are immediately recognised in the Operating Statement in the year when they occur.

Long Service Leave

Long service leave liability is classified as current when it satisfies any of the following criteria:

- it is expected to be settled in the entity's normal operating cycle
- it is held primarily for the purpose of being traded
- it is due to be settled within twelve months after the reporting date, or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

All other liabilities are classified as non-current.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

The Crown Entity recognises LSL liability for budget dependent agencies in the Other Employee Benefits provision. It measures the liability as the present value of future payments anticipated for the employee services that the government has taken on at the reporting date, using the projected unit credit method. An actuary calculates this using:

- expected future wage and salary levels
- experience of employee departures
- periods of service.

Estimated future cash outflows are discounted using market yields at the reporting date that closely match the term of maturity of government bonds.

The Crown Entity recognises the LSL liability for non-budget dependent agencies using the shortcut measurement techniques of AASB 119 *Employee Benefits*. This nominal method measures the liability as the present value of future payments anticipated for the employee services that the Crown has taken on at the reporting date. It estimates the long service leave liability for all employees with 5 and more year's service.

Depreciation of Physical Non-Current Assets

Depreciation is provided for on a straight-line basis for all depreciable assets to write off the depreciable amount of each asset as it is used over its estimated useful life.

Asset	Depreciation Rates	
	2006-07	**2005-06**
Buildings	2.5 %	2.5 %
Motor Vehicles	12.5 %	12.5 %
Computer Equipment	33.3 %	33.3 %

Land is not depreciated.

Amortisation of Physical Non-Current Assets

Leased assets are amortised over the period of the lease or the useful life of the asset whichever is greater.

Grants and Subsidies

The Crown Entity pays grants and subsidies as a voluntary transfer, not in substance agreement. These are treated as an expense when the payments are made.

An exception is the Snowy Scheme Reform payments to the Joint Government Enterprise established by the Commonwealth, NSW, Victorian and South Australian governments to increase the Murray and Snowy river flows. The Victorian Government is the fund manager. This grant is treated as expense only when it is spent by them.

Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

Goods and Services Tax

Income, expenses and assets are recognised net of goods and services tax (GST), except:

- where the GST as either part of the cost of acquiring an asset, or part of an item expense is not recoverable from the Australian Taxation Office
- for receivables and payables which are recognised as including GST.

The net GST recoverable or payable is included as part of receivables or payables.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST recoverable or payable on cash flows from investing and financial activities are classed as operating cash flows.

Contingencies and liabilities are inclusive of GST.

Recurrent and Capital Appropriations and Contributions from Other Bodies

Generally, parliamentary appropriations are income where an agency obtains control over appropriated assets after receiving cash. The Consolidated Fund recognises these appropriations as expenses.

An exception is year-end unspent appropriations where the amount is repaid to the Fund in the following financial year. The Fund accounts for unspent appropriations then as receivables rather than expenses. Agencies account for unspent appropriations as liabilities, not as income.

ASSETS

Cash and Cash Equivalents

Cash and cash equivalents in the Consolidated Balance Sheet comprise:

- cash at bank
- cash in hand
- restricted cash in the balances of Special Deposit Accounts
- other short term deposits with an original maturity of 3 months or less.

The Cash Flow Statement shows these cash and cash equivalents net of outstanding bank overdrafts.

Financial Assets

AASB 139 gives the scope for classifying financial assets at:

- fair value through profit or loss
- loans and receivables
- held-to-maturity investments
- available-for-sale investments.

The assets are measured at fair value when initially recognised. Investments not at fair value are measured through directly attributed transaction costs. The Crown Entity classifies the assets after initial recognition and when allowed and appropriate, it re-evaluates this at each year-end.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

Purchases and sales are financial asset purchases or sales under contracts where assets must be delivered in a time that is regulated or is set by a market. These are recognised on the trade date, when the Crown Entity commits to buying the asset.

(i) Financial Assets at Fair Value Through Profit or Loss

Financial assets held for trading are included as financial assets at fair value through profit or loss. This occurs if they are acquired to sell in the near term. Financial assets are also designated at fair value through profit or loss when they are managed and their performance is evaluated on a fair value basis. Derivatives are also classified as financial assets at fair value through profit or loss. Gains or losses on investments held for trading and financial assets through profit or loss are recognised in the Operating Statement.

(ii) Held-to-Maturity Investments

When the Crown Entity intends to hold non-derivative financial assets with fixed or determinable payments and fixed maturity, to maturity, it classifies them as held-to-maturity. This does not include investments that it intends holding for an undefined period.

Held-to-maturity investments, such as bonds, are subsequently measured at amortised cost. This is the initially recognised amount, less principal repayments, plus or minus the cumulative amortisation. The Crown Entity calculates this using the effective interest method. It measures the difference between the initially recognised amount and the maturity amount and it includes:

- all contractual paid or received fees and points that are an integral part of the effective interest rate
- transaction costs and all other premiums and discounts.

For investments carried at amortised cost, gains and losses are recognised in the Operating Statement when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest method. When they are derecognised or impaired, gains and losses are recognised in the Operating Statement, and through the amortisation process.

(iv) Available-for-Sale Investments

Available-for-sale investments are non-derivative financial assets that can be sold or are not classified under the above three categories. After being initially recognised, they are measured at fair value, with gains or losses recognised as a separate component of equity until derecognition or impairment occurs. On disposal, the cumulative gain or loss previously reported in equity is recognised in the Operating Statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

The Crown Entity determines fair value of actively traded investments by the quoted financial market-bid prices at the close of business on the Balance sheet date. Ways that it determines the fair value of investments with no active market include:

- recent arm's length market transactions
- the current market value of a substantially similar instrument
- discounted cash flow analysis
- option pricing models.

Derecognition of Financial Assets

The Crown Entity derecognises a financial asset including a part of an asset, or a part of a group of similar assets, when its right to receive cash flows from the asset has expired. It can retain this right and agree to pay all cash flows without material delay to a third party in a pass-through arrangement. Or it can transfer its right by either substantially transferring all risks and rewards or its control of the asset.

When this occurs, it recognises the asset to the extent of its continuing involvement in the asset. Where its continuing involvement is a guarantee over the transferred asset, this is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Crown Entity could be required to repay.

When continuing involvement occurs as a written and/or purchased option on the transferred asset, this is the amount of the asset that the Crown Entity may repurchase. For a written put option measured at fair value, the Crown Entity's continuing involvement is limited to the fair value and the option exercise price. Both of these types of options include a cash-settled option or similar provision.

Derecognition of Financial Liabilities

The Crown Entity derecognises a financial liability when its obligation to it is discharged, cancelled or expires.

When a lender replaces an existing financial liability with one on significantly different or modified terms, the Crown Entity derecognises the original liability and recognises the new liability. It then recognises the difference in their carrying amounts in the Operating Statement.

Impairment of Financial Assets

The Crown Entity assesses if a financial asset or group of financial assets is impaired at each reporting date.

(i) Financial Assets Carried at Amortised Cost

On objective evidence of an impairment loss incurred on loans and receivables being carried at amortised cost, the Crown Entity measures it as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. This does not include future credit losses that have not been incurred. It reduces the asset's carrying amount either directly or through an allowance account, and recognises the loss in the Operating Statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

The Crown Entity tests its financial assets, either individually or collectively, for impairment. If an individual asset is not impaired, it is then collectively assessed with other assets that have similar credit risk characteristics. If the asset has a new or a continuing impairment, it is not included in a collective assessment.

If the Crown Entity finds evidence that impairment has lessened after it has recognised the loss, it reverses the loss. It then recognises this in the Operating Statement, to the extent that the asset's carrying value is not more than its amortised cost at the reversal date.

(ii) Financial Assets Carried at Cost

If the Crown Entity incurs an impairment loss on an unquoted equity instrument not carried at fair value because the value cannot be reliably measured, or a loss on a linked or derivative asset settled by delivery, it measures the loss as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(iii) Available-for-Sale Investments

If the Crown Entity finds that an available-for-sale investment is impaired, it transfers the difference between its cost, net of any principal repayment and amortisation, and its current fair value, less any previously recognised impairment loss in the Operating Statement, from equity to the Operating Statement. Impairment loss reversals for equity instruments classified as available for sale are not recognised in the Operating Statement the Crown Entity reverses any debt instrument impairment losses through the Operating Statement if it finds that the instrument's increase in fair value occurred after it recognised the impairment loss in the Operating Statement.

Derivative Financial Instruments

Crown Entity uses derivatives such as interest rate swaps to reduce the risks of interest rate fluctuations. These instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

As the Crown Entity does not apply hedge accounting, any gains or losses arising from changes in the fair value of derivatives are taken directly to the Operating Statement.

Fair values of interest rate contracts are calculated by reference to the market value for similar contracts.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Inventories acquired at no cost, or for a nominal consideration are initially measured at current replacement cost at the date they are acquired.

Land held for sale is the land cost and related development expenses. This does not include vacant Crown land.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

Receivables

Taxes, fees and fines are recognised and carried at the original levied amount less an allowance for any uncollectible amounts.

The Crown Entity makes an allowance for doubtful debts on sound evidence that it cannot collect a debt. It writes off bad debts when it identifies them.

Assets Held for Sale

Non-current assets are classified as held for sale if they will be mainly recovered through immediate and highly probable sale and not through continuing use. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Property, Plant, and Equipment

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Land and buildings are measured at fair value less accumulated depreciation on buildings and any impairment losses recognised after their revaluation date.

Revaluations

After initially recognising land and buildings at cost, they are carried at a revalued amount. This is their fair value at the revaluation date, less ensuing accumulated building depreciation and impairment losses.

The fair value of Crown land is determined using Treasury Policy *TPP05-3 the Valuation of Physical Non-Current Assets at Fair Valu*e, which is in line with AASB 116 *Property, Plant and Equipment*. This fair value valuation method does not differ from the previous method used in the public sector.

The Crown Entity revalues leasehold land yearly. This includes perpetual leases, such as term leases, permissive occupancies and enclosure permits. It estimates fair value by discounting cash flows and by considering the lease conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

It revalues vacant Crown land every 5 years so that the carrying value of each asset in the class does not differ materially from its fair value at the reporting date.

Any revaluation increment is credited to the asset revaluation reserve in the equity section of the Balance Sheet, except where it reverses a revaluation decrease of the same class of assets that it previously recognised in the Operating Statement. It then recognises the revaluation increment in the Operating Statement.

Any revaluation decrease is recognised in the Operating Statement, except where it reverses a revaluation increase of the same class of assets that it previously recognised in the asset revaluation reserve.

Revaluation increments and decrements are offset against one another within a class of non-current assets. Where the Crown Entity revalues an asset, it restates the gross amount of the asset and the related accumulated depreciation of the class of the revalued assets.

When it disposes of an asset, it transfers any of the asset's revaluation reserve to retained earnings.

Derecognition and Disposal

The Crown Entity derecognises a property, plant and equipment item when disposing of it, or when no future economic benefit is expected of it.

It calculates any gain or loss on asset derecognition as the difference between the net disposal proceeds and the asset's carrying amount. This appears in the Operating Statement in the year the asset is derecognised.

Leased Assets

The Crown Entity distinguishes between finance leases and operating leases. A finance lease effectively transfers all the main ownership risks and benefits of a leased asset from the lessor to the lessee, while the lessor effectively retains these risks and benefits with an operating lease.

(i) Crown Entity as a Lessee

Finance leases are recognised as assets and liabilities at the present value of the minimum lease payments. The asset is amortised on a straight-line basis over the lease term, or over the asset's useful life where it is likely that the entity will come to own it. Lease payments are allocated between the principal component and the interest expense.

(ii) Crown Entity as a Lessor

With operating leases, the Crown Entity adds any initial direct lease negotiation costs to the carrying amount of the asset. It recognises this as an expense over the lease term, as it does with rental income.

Operating lease payments are charged to the Operating Statement on a straight-line basis over the lease term. Lease incentives are recognised directly to the Operating Statement as an integral part of the total lease expense.

Impairment of Assets

As detailed in TPP5-03, where an asset of a not-for-profit entity does not belong to a cash generating unit, it cannot be impaired under AASB 136, unless selling costs are material. In effect this exempts most assets from impairment testing.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

At each reporting date, the Crown Entity assesses whether an asset belonging to a cash generating unit is impaired. If so or when it does a yearly impairment test, it estimates the recoverable amount.

An asset's recoverable amount is the higher of its fair value, less selling costs and its value in use. If an individual asset does not generate an independent cash inflow, its value in use cannot be estimated as close to fair value. When this occurs, it is tested for impairment as part of the cash-generating unit to which it belongs.

In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate. This reflects current market assessments of the time value of money and specific risks to the asset. If future economic benefits do not mainly depend on it generating net cash inflows and the Crown Entity would replace it, its value in use is then its depreciated replacement cost.

Impairment losses of continuing operations are recognised in impaired asset expense categories unless the asset is carried at a revalued amount. The impairment loss is then treated as a revaluation decrease.

At each reporting date, the Crown Entity also assesses if a previously recognised impairment loss has reversed. If so, it estimates the recoverable amount. It only reverses an impairment loss if it previously recognised an estimate to determine the recoverable asset.

If this occurs, the Crown Entity increases the carrying amount of the asset to its recoverable amount. This cannot exceed the carrying amount, net of depreciation, if no impairment loss had been previously recognised.

This reversal is recognised in the Operating Statement unless the asset is carried at a revalued amount. If so, then the Crown Entity treats the reversal as a revaluation increase. After this, it adjusts its future depreciation charge to allocate the asset's revised carrying amount, less any residual value, systematically over its remaining useful life.

Investment in Associate

The Crown Entity recognises the NSW Government's 58 per cent investment in Snowy Hydro Limited (SHL) as an associate. It accounts for this using the equity method of accounting. This is due to the Crown's significant influence and because the investment is not a subsidiary or a joint venture.

With the equity method, the investment in the associate is carried in the Balance Sheet at cost plus post-acquisition changes in the Crown Entity's share of net assets of the associates. This changes the associate's share of net assets. The Crown Entity then determines whether it needs to recognise any extra impairment loss of the net investment in the associate.

The Operating Statement reflects the Crown Entity's share of the associate's operating results.

Where a change is recognised directly in the associate's equity, the Crown Entity recognises its share in the Statement of Recognised Income and Expenses.

The associate and the Crown Entity have the same reporting dates and accounting policies for like transactions and events.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

Jointly Controlled Assets

Interests in jointly controlled assets in which the Crown Entity has joint control are included in the financial statements by recognising the Crown's share of jointly controlled assets, liabilities, commitments, expenses or income incurred by or in respect of joint venture (classified according to their nature).

Investment Property

The Crown Entity initially measures investment properties at cost, including transaction costs. It initially measures a property acquired at no cost or nominal cost at its fair value. The carrying amount includes the cost of replacing part of an existing property at the time when that cost is incurred if the recognition criteria are met. This does not include any day-to-day servicing costs.

After initial recognition, the properties are stated at fair value, reflecting market conditions at the reporting date. Gains or losses from changes in the fair value are recognised in the Operating Statement in the year when they occur.

The Crown Entity derecognises the properties when:

- it disposes of them
- it takes them permanently out of use
- it does not expect them to yield any future economic benefits.

It then recognises any gain or loss in the year when it retires or disposes of the property.

Transfers are made to investment property only if there is a change in use, with evidence of:

- the end of an owner-occupation
- a new operating lease with another party
- the end of construction or development.

Transfers are made from investment property when there is a change in use, with evidence of:

- owner-occupation
- a start of development with a view to sale.

With a transfer of an investment property to an owner-occupied property, the Crown Entity accounts for the property under Property, Plant and Equipment up until the date of its change in use. With a transfer from inventories to an investment property, it recognises any difference between the fair value of the property at that date and its previous carrying amount in the Operating Statement. When it finishes its own construction or development of an investment property, it recognises any difference between the fair value of the property at that date and its previous carrying amount in the Operating Statement.

Crown Reserves

There are approximately 33,000 Crown reserves in New South Wales. The NSW Government manages some of these reserves and local governments and trusts manage others. A project is in progress to identify and value Crown reserves that are 'controlled' by the NSW Government, and therefore should be recognised as assets of the NSW Government in the Total State Sector Accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

To determine which entity controls the Crown reserves requires an evaluation of complex requirements under the Crown Lands Act 1989 and the Local Government Act 1993 and the interaction of these legislative requirements with the concept of control under accounting standards, including AASB 127 *Consolidated and Separate Financial Statements*, AAS 31 *Financial Reporting by Governments* and AAS 27 *Financial Reporting by Local Governments* and AASB 117 *Leases*.

Evaluation to date has not been conclusive and further investigation is necessary to determine the extent to which Crown reserves should be recognised in the Crown Entity Accounts. In finalising this evaluation, current proposed amendments to the current standards will also be taken into account.

Based on the preliminary assessment, it is currently estimated that the total value of reserves controlled by the NSW Government, but not currently recognised in the Crown Entity Accounts, is between $1 billion and $7 billion. However, the total value may even be outside of this range, depending on the current valuation of the controlled assets.

The Crown Entity will recognise the value of Crown reserves it controls in future Crown Entity Accounts once this project is complete and the value can be reliably estimated.

Intangible Assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The asset's cost in a business combination is its fair value on the date it is acquired. After it is initially recognised, it is carried at cost less any accumulated amortisation and impairment losses.

An intangible asset will have either a finite or an indefinite useful life. An asset with a finite life is amortised over its useful life and is assessed for impairment when an indicator of impairment exists. The Crown Entity reviews both the amortisation period and the amortisation method at least every financial year-end. It changes these when it accounts for any change in the asset's expected useful life or anticipated consumption of the future economic benefits. Any adjustment it makes is reflected in the accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the Operating Statement in the depreciation and amortisation line of the Operating Statement.

The Crown Entity measures derecognition gains or losses as the difference between the net disposal proceeds and the carrying amount of the asset. It recognises these in the Operating Statement when the asset is derecognised.

An indefinite life asset is not depreciated but is tested for impairment on an annual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

LIABILITIES

Payables

Payables are carried at amortised costs and represent liabilities for goods and services provided but not paid for by the year's end. The Crown Entity must make future payments for goods and services even if it has not been billed for them.

Borrowings

The Crown Entity initially recognises all loans and borrowings at the fair value of the consideration received, less directly attributable transaction costs.

After this, it then uses the effective interest method to measure interest-bearing loans and borrowings at amortised cost.

Gains and losses are recognised in the Operating Statement when the liabilities are derecognised.

Provisions

Provisions are recognised for a current obligation due to a past event where it is likely that the Crown Entity must commit economic resources and can reliably estimate the cost. This obligation can be legal or constructive.

Where it is certain that some or all of a provision will be reimbursed, as in an insurance contract, the reimbursement is recognised as a separate asset – but only when the reimbursement is virtually certain. A provision expense is presented in the Operating Statement, net of any reimbursement.

Where there is a material effect due to the time value of money, the Crown Entity discounts a provision using a current pre-tax rate that reflects the specific liability risk. With discounting, the increase in the provision because of time passing is recognised as a borrowing cost.

Outstanding Insurance Claims

The Crown Entity recognises claims expense and outstanding claims liability in the financial statements. The liability covers claims incurred, but not yet paid or reported. This includes the anticipated fund management fees. The fund manager and an independent actuary assess:

- outstanding claims
- estimated unreported claims
- settlement costs.

The Crown Entity calculates the outstanding insurance claims by reference to AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, to be consistent with the liability at the whole of government level where SICorp is treated as a self-insurer. This policy is not in accordance with the accounting standards which require such liabilities to be recorded in accordance with AASB 1023 *General Insurance Contracts*, but ensures consistency between the different State accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

The Crown Entity measures the liability for outstanding claims as the present value of expected future payments. This is based on the ultimate cost to settle claims, taking into account settlement factors such as normal and superimposed inflation.

Superimposed inflation is factors such as trends in court awards, as in a rise in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the reporting date using discount rates based on the estimated long-term investment earnings of the insurance asset portfolio.

ERRORS

The Crown Entity correct material prior period errors retrospectively in the first financial report authorised for issue after their discovery by:

(a) restating the comparative amounts for the prior period presented in which the error occurred
(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

The correction of prior period error is excluded from the Operating Statement for the period in which the error is discovered. Any information presented about prior period is restated as far back as practicable.

USE OF ESTIMATES AND JUDGEMENTS

Classification and Valuation of Investments

The Crown Entity classifies its Bond Portfolio and Hour-Glass Portfolio investments as fair value through profit or loss. The fair value has been determined by reference to the quoted market price for similar instruments the underlying value provided by Portfolio manager, New South Wales Treasury Corporation (TCorp). TCorp values financial assets and liabilities using valuation techniques, which discount cash flows to present value based on observable market yields for the same or equivalent securities. Changes in fair value are mainly attributable to fluctuations in market yields and prices arising from changes in market conditions.

Valuation of Derivative Financial Instruments

The fair values of derivatives are determined by reference to the market value for similar instruments.

Provision for Outstanding Claims

The significant estimates and judgements used in determining the provision for outstanding claims are included in note 21 to the financial statements.

Long Service Leave Liability

The significant estimates and judgements used in determining the long service liability are included in note 20 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

State Rail Authority (SRA) Workers Compensation Liability

The significant estimates and judgements used in determining the long service liability are included in note 20 to the financial statements.

Unfunded Superannuation Liability

The significant estimates and judgements used in determining the Unfunded Superannuation Liability are included in note 19 to the financial statements.

Fair Value of Land and Buildings Held at Fair Value

The significant estimates and judgements used in determining the fair value of land and buildings are included in note 11 to the financial statements.

Fair Value of Investment Property

The significant estimates and judgements used in determining the Fair Value of Investment Property are included in note 13 to the financial statements.

3. INCOME

	2007 $000	2006 $000
(a) Taxation, Fines and Regulatory Fees		
Payroll Tax	6,377,087	5,822,131
Stamp Duties*	5,956,410	4,816,252
Petroleum, Tobacco and Liquor Licences	1,990	1,797
Gambling and Betting	1,639,380	1,519,161
Land Tax	2,030,848	1,717,248
Motor Vehicle Taxes and Fees	1,510,886	1,477,334
Fees and Fines	255,750	336,633
Fire Insurance Levy	343,635	350,773
Other	674,026	560,663
	18,790,012	**16,601,992**
(b) Commonwealth Grants		
National Competition Payments	-	291,784
Revenue Replacement	103,055	31,936
Specific Purpose - Recurrent	5,439,736	5,178,092
Specific Purpose - Capital	1,160,433	1,965,508
GST Revenue	10,862,923	10,428,109
	17,566,147	**17,895,429**
(c) Financial Distributions		
Dividends	1,232,112	1,160,508
Income Tax Equivalents	638,673	529,212
	1,870,785	**1,689,720**
Tax of Agencies in the Tax Equivalent Regime (TER)	859,126	850,796
Tax Effect of Permanent Differences	(220,453)	(321,584)
Tax Expense of Agencies in the TER	**638,673**	**529,212**
(d) Sales of Goods and Services		
Property Rental	151,183	155,778
Insurance Premium Revenue	859,924	970,716
Reinsurance and Other Recoveries Revenue	1,239	1,575
	1,012,346	**1,128,069**
(e) Investment Income		
Interest		
- Health Super Growth Fund	-	21,118
- Advances	90,666	96,873
- Short Term Money Market Deposit	6,962	886
- Other	17,516	20,883
Market Value Increment on Investments	821,227	859,652
	936,371	**999,412**

* In 2007 Stamp Duties includes an assessment of $424 million ($259 million duty and $165 million interest) is currently subject to an objection by the taxpayer. The Chief Commissioner of State Revenue does not believe that consideration should be given to impairing the receivable until the outcome of the objection process is known.

3. INCOME (CONT)

	2007 $000	2006 $000
(f) Other Income		
Royalty on Minerals	488,895	503,722
Electricity Tariff Equalisation Contributions from Retailers	189,366	374,215
Electricity Tariff Equalisation Contributions from Generators	120,984	-
Revenue from Crown Leasehold Assets	56,128	46,237
Contribution from Environmental Trust	11,482	27,350
Fire Brigade Levy from Local Government	58,252	57,308
Crown Share of Budget Agency Asset Sales	35,095	66,331
Builders Warranty Premium Revenue	545	571
Repayments of Previous Years Appropriation	32,803	97,509
Long Service Leave Contributions	41,287	28,606
Employers Superannuation Contribution	4,298	8,505
Unclaimed Monies	26,585	17,702
Bona Vacantia - Public Trustee	677	6,760
Motor Vehicle Rental Income	24,604	47,602
HIH Insurance Recoveries	94,648	28,162
Other	81,967	69,619
	1,267,616	**1,380,199**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

4. EXPENSES

	2007 $000	2006 $000
(a) Grants and Subsidies		
Natural Disaster Relief	76,712	22,071
Snowy River Water Rights	22,720	1,149
Health Capital Grant	23,000	21,870
Australian Inland Energy - Operating Subsidy	5,300	5,300
WSN Environment Solutions	65,000	-
Transport Infrastructure Development Corporation	960,000	-
Advances	32,054	21,387
Other	(704)	7,511
	1,184,082	**79,288**
(b) Borrowing Costs		
Finance Charges Incurred to:		
NSW Treasury Corporation	643,106	612,378
Commonwealth Government	68,546	70,813
NSW Budget-Dependent Agencies	76,126	64,142
Other	16,985	31,349
Unwinding of Discounts	271,158	269,641
	1,075,921	**1,048,323**
(c) Insurance Claims		
Claims Paid	607,431	616,242
Movement in Outstanding Claims	(440,870)	(299,119)
Management Fees and Legal Expenses	89,040	80,427
Provision for HIH Insurance Claims	4,163	21,000
	259,764	**418,550**
(d) Other Expenses		
Asset Revaluation Adjustment	63,938	60,819
Head Leases	101,084	104,615
State Bank Post Sale Expenses	(64)	(1,194)
Remissions/Refunds Crown Revenue	71,950	69,705
Bad Debts Write Off	(3,147)	843
Outward Reinsurance Expense	30,317	26,549
Audit Fees - Financial Statements	991	467
Audit Fees - Performance Audits	1,600	1,550
Other Auditors - Review of Financial Report	203	105
Other Auditors - Taxation Services	5	40
Production of Auditor-General's Reports to Parliament	1,420	1,380
Electricity Tariff Equalisation Payments to Retailers	582,458	311,302
GST Administration Costs	203,445	201,565
Actuarial Fees	3,648	4,570
Snowy Hydro Sale Costs	(399)	11,115
Statutory Fees - Workcover Levy	28,471	21,452
Other	55,615	60,524
	1,141,535	**875,407**

5. LOSS ON DISPOSAL OF NON-CURRENT ASSETS

	2007 $000	2006 $000
Proceeds from Sale	124,980	163,354
Written Down Value of Property, Plant and Equipment Sold	(209,567)	(223,855)
Net Loss on Disposal of Property, Plant and Equipment	**(84,587)**	**(60,501)**

6. INVESTMENT IN AN ASSOCIATE

Investment in an Associate	749,390	752,719
	749,390	**752,719**

Snowy Hydro Limited (SHL) was incorporated on 27 June 2001. Its principal activities are the generation and marketing of flexible and renewable electrical energy.

The NSW Government's investment in SHL is a 58 per cent share from the Commonwealth Government at corporatisation. It does not control the entity, with one of up to nine board directors. The Commonwealth has a 13 per cent share and Victoria has a 29 per cent share. The Crown Entity has significant influence over SHL and uses the equity method of accounting for investment. It regularly monitors the financial performance. There are no impairment indicators and no impairment losses.

Share of Associate's Balance Sheet		
Current Assets	153,611	66,314
Non Current Assets	1,263,963	1,263,409
	1,417,574	1,329,723
Current Liability	231,408	58,108
Non Current Liability	436,776	518,896
	668,184	577,004
Net Assets	**749,390**	**752,719**
Share of Associate's Profit		
Revenue	347,976	296,079
Profit before Income Tax	37,793	111,152
Income Tax Expense	(14,028)	(37,361)
Profit after Income Tax	**23,765**	**73,791**
Commitment of Expenditure		
Share of Capital Expenditure Commitment Contracted For	29,469	53,087
Share of Other Expenditure and Operating Lease Commitment Contracted For	45,410	46,591
	74,879	**99,678**

7. FINANCIAL ASSETS AT FAIR VALUE

	2007 $000	2006 $000
Current:		
"Hour Glass" Investments		
- Australian Shares	-	161,803
- Indexed Australian Shares	-	55,327
- International Shares	-	149,656
- Indexed International Shares	-	51,788
- Listed Property	-	39,905
Bond Portfolio	-	1,041,521
Other	123	121
	123	**1,500,121**
Non -Current:		
"Hour Glass" Investments		
- Australian Shares	798,262	782,679
- Indexed Australian Shares	206,635	267,399
- International Shares	736,184	754,772
- Indexed International Shares	260,193	250,617
- Listed Property	209,700	197,078
- International Bonds	313,163	-
- Medium-Term Growth	110,477	-
- Long-Term Growth	110,061	-
Bond Portfolio	2,126,574	7,918,959
Other	581	754
	4,871,830	**10,172,258**

8. ADVANCES REPAYABLE TO THE CROWN

	2007 $000	2006 $000
Current	46,869	151,294
Non-Current	908,144	926,931
Total Advances	**955,013**	**1,078,225**
Represented By:		
Rural Assistance Authority	77,901	81,340
Sydney Water Corporation	36,237	39,052
Commonwealth Housing Advances	712,888	732,048
Administered Advances	24,427	24,508
Department of Primary Industries	25,852	28,750
Department of Education	-	76,149
NSW Business Link	-	13,500
NSW Health Department	11,855	12,864
Department of Environment and Conservation	31,725	31,452
Roads and Traffic Authority	16,837	9,637
Other	17,291	28,925
	955,013	**1,078,225**

Advances repayable to the Crown, with a carrying amount of $1,468 million as at 30 June 2007 and $1,598 million as at 30 June 2006, have stated interest rates of 0.0 – 10.24 per cent and mature in 1-36 years. The advances are a mix of interest and non interest bearing advances.

The fair value of advances that are the on-lending of Commonwealth loans was estimated by discounting the expected future cash flows by the relevant Commonwealth bond rate. The fair value of other advances was estimated by discounting the expected future cash flows by the relevant TCorp bond rate.

9. INVENTORIES

	2007 $000	2006 $000
Current:		
Land Development Works in Progress	**12,944**	**17,467**
Non-Current:		
Developed Land Held for Sale	**4,962**	**3,751**

10. RECEIVABLES

	2007 $000	2006 $000
Current:		
Taxes, Fees and Fines	1,362,917	717,193
Less: Allowance for Doubtful Debts	(24,112)	(41,633)
Net -Taxes, Fees and Fines	1,338,805	675,560
Dividends	1,236,970	1,219,293
Tax Equivalents	281,893	248,802
Reinsurance and Other Recoveries Receivable	31,939	29,384
Unspent Appropriations	21,572	78,909
Insurance	116,062	85,384
ETEF Tariff	120,984	23,125
GST Receivable	5,589	6,543
HIH Insurance Recoveries	-	4,862
Other	39,934	54,182
	3,193,748	**2,426,044**
Non-Current:		
Reinsurance and Other Recoveries Receivable	154,811	144,286
Conversions - Crown Leaseholds	22,708	25,551
Other	15,570	6,996
	193,089	**176,833**

The average credit period on sales, unless agreed, is 30 days. No interest is being charged on payments which are delayed. Allowance for doubtful debts has been made for specific receivables which are not likely to be received. Movement of this allowance is recognised in the Operating Statement.

In 2007 current receivables includes assessments totalling $468.9 million which are under objection or appeal.

11. PROPERTY, PLANT AND EQUIPMENT

	2007	2006
Finance Lease	53,673	148,060
Owned	6,770,726	6,458,501
	6,824,399	**6,606,561**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

11. PROPERTY, PLANT & EQUIPMENT (Cont)

a) Property, Plant & Equipment – Finance Lease

	Leasehold Building $000	Motor Vehicles $000	Total $000
Fair Value			
Opening Balance 1 July 2006	8,516	175,034	183,550
Less: Asset Revaluation Decrement	(506)	-	(506)
Less: Disposals	-	(110,247)	(110,247)
Closing Balance 30 June 2007	**8,010**	**64,787**	**72,797**
Accumulated Depreciation			
Opening Balance 1 July 2006	250	35,240	35,490
Add: Charge for the Year	536	19,083	19,619
Less: Disposals	-	(35,199)	(35,199)
Less: Reversal Due to Asset Revaluation	(786)	-	(786)
Closing Balance 30 June 2007	**-**	**19,124**	**19,124**
Net Carrying Amount			
Balance 1 July 2006	8,266	139,794	148,060
Balance 30 June 2007	**8,010**	**45,663**	**53,673**

	Leasehold Building $000	Motor Vehicles $000	Total $000
Fair Value			
Opening Balance 1 July 2005	101,500	287,261	388,761
Add: Acquisition	-	46,750	46,750
Add: Asset Revaluation Increment	3,516	-	3,516
Less: Transfer Of McKell Building to Owned Property	(96,500)	-	(96,500)
Less: Disposals	-	(158,977)	(158,977)
Closing Balance 30 June 2006	**8,516**	**175,034**	**183,550**
Accumulated Depreciation			
Opening Balance 1 July 2005	5,816	46,926	52,742
Add: Charge for the Year	2,908	36,575	39,483
Less: Disposals	-	(48,261)	(48,261)
Less: Reversal Due to Asset Revaluation	(8,474)	-	(8,474)
Closing Balance 30 June 2006	**250**	**35,240**	**35,490**
Net Carrying Amount			
Balance 1 July 2005	95,684	240,335	336,019
Balance 30 June 2006	**8,266**	**139,794**	**148,060**

11. PROPERTY, PLANT & EQUIPMENT (Cont)

Motor Vehicles

Motor vehicles are initially recorded at fair value. Each vehicle is then reduced on a straight line basis to its residual value over the life of the lease. It is assumed the residual value approximates the fair value as residuals are adjusted several times a year in line with forecast sale prices and leases are normally only for a two year period. The Crown Entity ceased issuing new leases in January 2006.

Leasehold Building

During 2005/06 an option to purchase McKell Building was settled in June 2006 resulting in the movement from finance lease to land and buildings. The leasehold building as at 30 June 2006 is related to Noel Park House, Marius Street, Tamworth. Noel Park is being amortised over the life of the lease.

The leasehold building was independently valued on 1 January 2006. The independent qualified valuers, Savills and Landmark White, undertook valuations and provided the current fair value on a highest and best use basis. Where the property was occupied, the market valuation reflects the actual lease, licence or tenancy agreement in place.

All owned government office buildings under the highest and best use basis of valuation were valued using the income capitalisation valuation approach and discounted cash flow method. Both valuation firms were provided with market rentals for all government office buildings that were determined as at 1 January 2005 and were required to adopt these rentals as part of their valuation.

Under the income capitalisation approach, valuers were required to estimate market outgoings for the building to deduce a net market income for the property and then capitalise the net income using a yield that had been sourced from available market evidence. Below the line deductions were made for letting up periods and required capital works over the next 12 months. Landmark White adjusted the capitalisation rate to reflect the quality of the building.

With regards to the discounted cash flow method, valuers used the following:

- Rental growth rates used generally range between 2.00-5.00 per cent per annum depending on the location of the property, supply coming on to the market and the likely future demand for accommodation.
- Outgoing growth rates used are generally in the range of 3.00-4.00 per cent per annum.
- Discount Rates used were influenced by many factors including the returns available from alternative investments, long term bond rates, current property yields, expected CPI increases, rental growth and the perceived risk of illiquidity associated with the property. Discount rates ranging from 9.00-12.00 per cent have typically been adopted for the majority of the Portfolio.
- Terminal yields ranging from 8.00-12.00 per cent. These rates assume that prevailing market conditions are similar to those being experienced as at the date of valuation. The valuer has also had regard to the level of capital works to be undertaken over the holding term and the quality of the building at the end of ten years.

NOTES TO THE FINANCIAL STATEMENTS
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11. PROPERTY, PLANT & EQUIPMENT (Cont)

b) Property, Plant & Equipment - Owned

	Land $000	Building $000	Leasehold Land $000	Plant & Equipment $000	Total $000
Fair Value Or Cost					
Opening Balance 1 July 2006	5,133,220	445,063	881,198	696	6,460,177
Add: Acquisition	39,061	95,083	-	183	134,327
Add: Asset Revaluation Increment/(Decrement)	806,982	599	(347,153)	-	460,428
Less: Disposals	(79,382)	-	(16,074)	-	(95,456)
Less: Trsf to Other Government Agencies	(132,250)	-	(18,272)	-	(150,522)
Less: Trsf Between Classes	(51,879)	-	51,879	-	-
Add: Trsf from Intangible Assets	-	4,075	-	-	4,075
Add: Revaluation of Transferred Assets	150	-	-	-	150
Less: Decrement in Value	(35,716)	-	-	-	(35,716)
Closing Balance 30 June 2007	**5,680,186**	**544,820**	**551,578**	**879**	**6,777,463**
Accum Depreciation					
Opening Balance 1 July 2006	-	1,500	-	176	1,676
Add: Charge for the Year	-	4,887	-	174	5,061
Closing Balance 30 June 2007	**-**	**6,387**	**-**	**350**	**6,737**
Net Carrying Amount					
Balance 1 July 2006	5,133,220	443,563	881,198	520	6,458,501
Balance 30 June 2007	**5,680,186**	**538,433**	**551,578**	**529**	**6,770,726**

11. PROPERTY, PLANT & EQUIPMENT (Cont)

	Land	Building	Leasehold Land	Plant & Equipment	Total
	$000	$000	$000	$000	$000
Fair Value Or Cost					
Opening Balance 1 July 2005	5,169,348	312,619	765,722	38	6,247,727
Add: Acquisition	5,829	3,901	-	628	10,358
Add: Asset Revaluation Increment	25,885	21,701	139,406	-	186,992
Less: Disposals	(42,527)	-	(14,112)	-	(56,639)
Add: Transfer from Other Government Agencies	1,866	-	-	-	1,866
Less: Transfer Between Classes	(28,037)	-	(9,818)	-	(37,855)
Add: Capitalised Expenditure	-	50,521	-	30	50,551
Less: Transfer To Investment Property Due To AE	-	(40,179)	-	-	(40,179)
Add: Transfer To Mckell Bldg From Finance Lease	-	96,500	-	-	96,500
Add: Revaluation of Transferred Assets	856	-	-	-	856
Closing Balance 30 June 2006	**5,133,220**	**445,063**	**881,198**	**696**	**6,460,177**
Accum Depreciation					
Opening Balance 1 July 2005	-	5,538	-	37	5,575
Add: Charge for the Year	-	3,225	-	139	3,364
Less: Reversal Due To Asset Revaluation	-	(7,263)	-	-	(7,263)
Closing Balance 30 June 2006	**-**	**1,500**	**-**	**176**	**1,676**
Net Carrying Amount					
Balance 1 July 2005	5,169,348	307,081	765,722	1	6,242,152
Balance 30 June 2006	**5,133,220**	**443,563**	**881,198**	**520**	**6,458,501**

Crown Land

Unallocated Crown land represents all parcels of Crown land not included in the leasehold estate. This land was independently valued in March 2007 by the Valuation Services Division within the Land and Property Information at fair value in accordance with the requirements of AASB 116 *Property, Plant and Equipment.*

The valuation method adopted was the valuation of each land type on a rate per hectare basis for each council area (Local Government Area - LGA). The land was valued at the highest and best use taking into account zoning and other restrictions, access to services and infrastructure and property market demand.

These value elements were considered in a global way when formulating a value level to apply to the particular land type. The determination of global rates per hectare for a variety of land classifications for each LGA is considered the most appropriate approach to determine a value for unallocated Crown land. This methodology has the advantages of being a practical way to cost effectively arrive at a market based value for lands for which the Entity holds the full interest.

In June 2006, the Chief Valuer at Valuation Services within Land and Property Information NSW advised that on a reasonable basis, the value of vacant Crown land had increased by 30 per cent ($1.137 billion) since 2002. Given this advice, management adjusted the value of unallocated Crown land upwards by $1.137 billion against the asset revaluation reserve effective 1 July 2004.

11. PROPERTY, PLANT & EQUIPMENT (Cont)

Aboriginal Land Councils

The Crown Leasehold Entity land holdings include land, valued at $1.042 billion, which has been granted to local Aboriginal Land Councils under the Aboriginal Land Rights Act 1983. These parcels of land remain under the care, control and management of the Crown pending formal land boundary surveys being undertaken so that freehold title can be prepared. Once this action occurs, freehold title can be issued to the respective local Aboriginal Land Council(s). At that point the care, control and management of the land will be transferred from the Crown.

Crown Property Portfolio

The land and buildings held by the Crown Property Portfolio of $597 million (2006 $640 million) are stated at fair value.

All land and buildings classified as 'property, plant and equipment' were independently valued on 1 January 2006. The independent qualified valuers, Savills and Landmark White, undertook valuations and provided the current fair value on a highest and best use basis. Where the property was occupied, the market valuation reflects the actual lease, licence or tenancy agreement in place.

In accordance with NSW Treasury Guidelines for Valuation of Physical Non-Current Assets at Fair Value and Australian Accounting Standards, valuation firms were engaged to determine whether or not there was any indication that the advised carrying amount as at 30 June 2007, differed materially from the asset's current fair value. The following independent qualified valuers, Savills and Landmark White, prepared a statement of value for each property as at 1 July 2007 and concluded that if the properties were to be revalued there would be no material increase or decrease to the carrying amount. The valuers arrived at this conclusion after taking into consideration the following:

- Carrying amount of the asset compared to the 1 January 2006 valuation
- Changes to market and economic conditions that have occurred since the 1 January 2006 valuation
- Changes to forecasts that were contained in the 1 January 2006 valuation.

Leasehold Land

Leasehold land includes perpetual leases, term leases, permissive occupancies and enclosure permits. Leasehold land was independently re-valued in March 2007 by the Valuation Services Division within the Land and Property Information at fair value in accordance with the current requirements in AASB 116.

The basis of valuation is the capitalisation of the income stream from the different classifications of land within each local government area, appropriately taking into account the conditions attaching to the leases. The method of valuation utilised mass valuation techniques.

In prior years, the land was re-valued by capitalising rental revenue by an average rate of 4.97 per cent irrespective of the category of tenure or the location of the tenure within the State. Through enhancements to the Crown Lands Information Database, re-valuations in the future will be more precise as the land value within each local government area will be calculated at the appropriate LGA/Category figure which will be adjusted annually.

12. ASSETS HELD FOR SALE

	2007 $000	2006 $000
Land	**30,641**	**24,290**

Two properties, Birmingham Gardens, Lot 380 and 381, Jones Street, Newcastle, were disposed of during 2006-07. 6A Huntley Street, Alexandria remained classified as asset held for sale as the sale was delayed and was disposed of on 3 July 2007. 14-16 Rivers Street, Macksville was not sold during 2006-07 and has been transferred to property, plant and equipment.

13. INVESTMENT PROPERTY

Land	15,673	15,673
Building	45	45
	15,718	**15,718**

Reconciliations

Land - Net Fair Value at Beginning of Year	15,673	15,690
Add: Transfer from Property, Plant & Equipment	-	40,179
Add: Initial Cost of New Operating Lease Arrangement	-	603
Less: Net Loss from Fair Value Adjustment	-	(40,799)
Closing Balance	**15,673**	**15,673**
Building - Net Fair Value at Beginning of Year	45	23
Add: Net Gains from Fair Value Adjustment	-	22
Closing Balance	**45**	**45**
Total Investment Property	**15,718**	**15,718**

13. INVESTMENT PROPERTY (Cont)

The investment property relates to seven properties leased out to non-government tenants on long term (over 50 years) operating leases.

All investment properties were independently revalued on 1 January 2006, except for a newly entered lease, which is recorded as Nil at inception. An independent qualified valuer, Landmark White, who has recent experience in comparable markets and category of the investment properties being value, performed the valuation.

The methods of valuation differ slightly for each property but all rely on the valuers having regard to recent sales evidence to determine the property's market value. The present value of the annual net rental cash flow derived under the lease of the property is then added to the emerging value to arrive at the Entity's interest in the property. The discount rate used in the analysis to arrive at market value for the investments is 5 per cent.

A change in the current property investment climate could materially affect the value of these properties for the next reporting period.

In accordance with NSW Treasury Guidelines for valuation of physical non-current assets at fair value and Australian Accounting Standards, valuation firms were engaged to determine whether or not there was any indication that the advised carrying amount as at 30 June 2007, differed materially from the asset's current fair value. The following independent qualifies valuers, Savills and Landmark White, prepared a statement of value for each property as at 1 July 2007 and concluded that if the properties were to be revalued there would be no material increase or decrease to the carrying amount. The valuers arrived at this conclusion after taking into consideration the following:

- Carrying amount of the asset compared to the 1 January 2006 valuation
- Changes to market and economic conditions that have occurred since the 1 January 2006 valuation
- Changes to forecasts that were contained in the 1 January valuation.

14. INTANGIBLE ASSETS

	2007 $000	2006 $000
Intangible	4,245	7,098
Less : Accumulated Amortisation	(1,229)	(538)
	3,016	**6,560**

	Sydney Opera House Car Park Lease $'000	Computer Software Costs $'000	Total $'000
Year Ended 30 June 2007			
At 1 July 2006			
Net of Accumulated Amortisation and Impairment	4,023	2,537	6,560
Acquisition	-	1,221	1,221
Transfer to Property, Plant and Equipment	(4,023)	-	(4,023)
Amortisation	-	(742)	(742)
At 30 June 2007			-
Net of Accumulated Amortisation and Impairment	**-**	**3,016**	**3,016**

	Sydney Opera House Car Park Lease $'000	Computer Software Costs $'000	Total $'000
Year Ended 30 June 2006			
At 1 July 2005			
Net of Accumulated Amortisation and Impairment	2,090	-	2,090
Acquisition	-	3,024	3,024
Asset Revaluation Increment	1,875	-	1,875
Amortisation	(78)	(487)	(565)
Reversal of Amortisation due to Asset Revaluation	136	-	136
At 30 June 2006			
Net of Accumulated Amortisation and Impairment	**4,023**	**2,537**	**6,560**

In 1993, the Crown leased the Sydney Opera House car park to a private consortium on a 50-year ground lease. The lessee has built and paid for a subterranean car park with a design life of 50 years. The government has the right to receive this when the lease ends. Lease rental income is reflected in the Operating Statement, with the value of the car park land recognised as an investment property and the emerging value of the structures recognised in property, plant and equipment. At 30 June 2006, the structures were treated as intangible assets.

Computer Software Costs represent the capitalisation of development costs for the SICorp's Data Warehouse and computer softwares.

15. JOINTLY CONTROLLED ASSETS

Joint Government Enterprise Limited (JGE) – Water for Rivers

JGE was established as a joint enterprise by the Commonwealth Government, the Victorian Government and the New South Wales Government ("the Members") on 12 November 2003. The principal activities of the company are to fund water saving initiatives and purchase water entitlements in sufficient volumes to provide increased flows into the Snowy River, Snowy Mountain River and Murray River systems.

Under the Funding Agreement, the JGE is contractually funded jointly by the three parties from the date of incorporation and New South Wales Government's ("NSW") 40 per cent share $150 million in total to be paid each quarter over 10 years.

To ensure that the JGE neither makes a taxable profit or loss, contribution paid by the parties are placed into a "Funding Account". JGE is only reimbursed from the funding account for expenditure incurred. The bank account is legally held in the name of, and on behalf of, the Members, the money in Funding account remains jointly controlled by the Members until such time as an expense reimbursement claim is received from JGE. The NSW's share in the bank balance is included in the financial statements under their respective asset categories:

	2007 $000	2006 $000
Current Assets		
Cash and Cash Equivalents	**53,594**	**58,069**

Commitments

The balance in joint Funding Account is fully committed for the purpose it was established.

Commitments	**53,594**	**58,069**

16. PAYABLES

	2007 $000	2006 $000
Current:		
Creditors	39,301	60,692
Financial Charges	194,662	178,575
GST Payable to Commonwealth	85,525	85,921
Motor Accident Authority - HIH Liability to Nominated Claimants	17,419	22,096
Accrued ETEF Tariffs	434,800	304
Other	9,011	95,646
	780,718	**443,234**
Non-Current:		
Motor Accident Authority - HIH Liability to Nominated Claimants	42,407	70,026
	42,407	**70,026**

If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or statement is received. Financial charges mainly represent accrued interest payable on due date to TCorp and Commonwealth government. Other payables are non-interest bearing and are generally on 30 days term.

17. BORROWINGS

	2007 $000	2006 $000
Current:	2,260,901	1,481,682
Non-Current:	8,132,266	8,896,536
	10,393,167	**10,378,218**
Analysed as:		
New South Wales Treasury Corporation	9,432,513	9,296,732
Commonwealth Financial Agreement	8,092	8,223
Commonwealth Specific Purpose Advances	873,662	899,646
Finance Leases	53,673	148,309
Administered Loans	24,427	24,508
Other	800	800
Total Borrowings at Amortised Cost	**10,393,167**	**10,378,218**
Repayment of Borrowings at:		
Not Later than One Year	2,260,901	1,481,682
Between One and Five Years	4,038,556	3,794,488
Later than Five Years	4,093,710	5,102,048
	10,393,167	**10,378,218**

Crown Entity estimated the fair value of Commonwealth specific purpose loans by discounting the expected cash flows by the relevant Commonwealth bond rate.

Borrowings from TCorp are interest bearing and average interest costs including the amortisation of bond premium or discount of Core Portfolio was 6.19 per cent (2006: 6.29 per cent). Average duration of portfolio is 3.66 years (2006: 3.98 years). The fair value is estimated by using the market value of the equivalent TCorp bonds that underlie the borrowings. The Crown Entity measures its exposure to interest rate risk in terms of cash flows or notional cash flows generated by financial instruments as discussed in note 2.

18. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Policies and Objectives

The Crown Entity's principal financial liabilities are TCorp and Commonwealth borrowings, overdrafts payable and finance leases. Its main financial assets are cash, Hour-Glass facilities, receivables and bond investment portfolios. It also makes derivative transactions.

The financial instruments have two main purposes:

- borrowings and advances are used to raise and on-lend finance for General Government Sector activities
- Hour-Glass and bond investments are used to offset insurance liabilities.

Other financial assets and liabilities, such as trade receivables and trade payables, arise directly from operations.

Derivative transactions are based on interest rate futures, interest rate swaps and cross-currency swaps. TCorp enters into these to manage the interest rate and currency risk from its investments and finance sources.

Risk Management

The main financial instrument risks are:

- fair value interest rate risk
- price risk
- currency risk
- credit risk
- liquidity risk.

The Crown Entity has appointed TCorp to manage its treasury risks. TCorp addressed operational risks and has:

- comprehensive and detailed risk policies
- detailed controls for the security, integrity and accuracy of all key systems
- clear and appropriate reporting
- fully qualified staff.

Note 2 details the key accounting policies and methods. This includes the recognition criteria, the basis of measurement and the income and expenses recognition for each class of financial instrument.

Fair Value Interest Rate Risk

Because all the Crown Entity's long-term borrowings are at a fixed interest rate, their value fluctuates with changes in market interest rates.

TCorp manages fixed rate borrowings within agreed modified duration targets. It uses derivatives or physical securities to shorten or lengthen the modified duration of the bond portfolio when interest rates change and when it can add value to borrowings.

18. FINANCIAL INSTRUMENTS (Cont)

The value of bond investment portfolios also fluctuates because of market interest rate changes. TCorp manages these portfolios to agreed benchmarks to minimise the fair value interest rate risk, or to reflect the duration of liabilities that the bond portfolio is offsetting.

The value of Hour-Glass unit trust investment fluctuates because of international interest rate changes. The Crown Entity regularly consults with external asset consultants about the appropriate exposure level for the insurance liabilities that the investment offsets.

Price Risk

The Crown Entity has some price risk exposure through its investment in TCorp Hour-Glass facilities. Their value fluctuates because of changes in the Australian and international equities markets and the Australian listed property market.

TCorp manages the Hour-Glass fund managers using agreed benchmarks. The Crown Entity regularly consults with external asset consultants about the appropriate price risk exposure level for the insurance liabilities that the investments cover.

The Crown Entity has no direct transactional exposure to commodity price risk.

Currency Risk

The Crown Entity has no transactional or structural currency exposures.

It has foreign currency risk exposure from its Hour-Glass and bond investments. It fully hedges all foreign currency exposure for international fixed interest unit trust investments and foreign currency-denominated bond investments.

The Hour-Glass unit trust holds international equities on an unhedged basis. TCorp and an external asset consultant advise the Crown Entity on the currency risks from investing in the trust.

Credit Risk

The Crown Entity has a significant concentration of credit risk with NSW public sector entities.

It follows the Treasurer's directions and gives advances to entities on terms set by parties within the NSW Government. It assesses outstanding balances for the advances each year, and reduces the carrying value when it no longer expects repayment.

Receivables include outstanding legally required taxes, fees and fines, collected by the Office of State Revenue (OSR) for the Consolidated Fund. OSR have extensive receivables management systems for managing outstanding receivables. Other receivables include dividends and outstanding tax equivalents from government businesses.

TCorp manages almost all the Crown Entity's other financial assets and it has credit risk policies for:

- cash and cash equivalents
- held for trading assets
- certain derivative instruments.

18. FINANCIAL INSTRUMENTS (Cont)

The Crown Entity's exposure to credit risk occurs where a counterparty defaults, with a maximum exposure equal to the carrying amount of these instruments.

Since advances and receivables result from legal requirements and government policy, the Crown Entity does not receive any collateral. Because recognised third parties provide its other financial assets, collateral is not required.

All government borrowings, while government guaranteed, are unsecured as no assets are secured by the borrowings.

Liquidity Risk

The Crown Entity aims to maintain a balance between funding continuity and flexibility by using:

- bank overdrafts
- TCorp come-and-go facilities
- TCorp borrowings
- finance leases.

It indirectly manages the maturity of its TCorp borrowings through setting modified duration targets for the portfolio. The government's AAA credit rating allows it to refinance maturing borrowings as needed.

(b) Fair Value

All financial instruments are carried at either fair value or amortised cost.

In adopting AASB 139, all financial assets were initially recognised at fair value in 2005-06.

The Crown Entity estimated the fair value of Commonwealth special purpose and general purpose loans by discounting the expected cash flows by the relevant Commonwealth bond rate. Treasury Policy TPP06-4 Accounting for Financial Instruments exemption allows it not to value the loans by the TCorp bond rate.

The fair value of advances that are the on-lending of Commonwealth loans was estimated by discounting the expected future cash flows by the relevant Commonwealth bond rate. The fair value of other advances was estimated by discounting the expected future cash flows by the relevant TCorp bond rate.

The Crown Entity estimated the fair value of TCorp borrowings by using the market value of the equivalent TCorp bonds that underlie the borrowings.

Cash and cash equivalents are carried at amortised cost, which is near their fair value. Receivables, payables, bank overdrafts and borrowings are carried at amortised cost after initial recognition at fair value.

Derivatives and investments are carried at fair value based on market prices.

Other financial assets are carried at fair value based on either market prices or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles. The aggregate fair values of financial assets and liabilities for 2007 and 2006 are:

NOTES TO THE FINANCIAL STATEMENTS
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18. FINANCIAL INSTRUMENTS (Cont)

	Carrying 2007 $000	Fair Value 2007 $000
Financial Assets		
Cash and Cash Equivalents	739,584	739,584
Receivables	3,115,123	3,115,123
Investments		
-TCorp Hour Glass	2,744,675	2,744,675
-Bond Portfolio	2,126,574	2,126,574
-Others	813,860	813,860
Advances Repayable to the Crown		
-Funded by Commonwealth Specific Purpose Loans	750,809	750,809
-Funded by Others	179,777	179,777
-Administered Borrowings	24,427	24,446
Derivatives	4,537	4,537
	10,499,366	**10,499,385**
Unrecognised Profit	19	-
Total	**10,499,385**	**10,499,385**
Financial Liabilities - Unsecured		
Overdraft	2,919,691	2,919,691
Payables	823,125	823,125
Borrowings		
-Finance Leases	53,673	53,673
-TCorp Borrowings	9,432,513	9,351,884
-Commonwealth General Purpose Borrowings	8,092	4,018
-Commonwealth Specific Purpose Borrowings	873,662	873,662
-Own Name Borrowings	800	800
-Administered Borrowings	24,427	24,446
Derivatives	-	-
	14,135,983	**14,051,299**
Unrecognised Profit	-	84,684
Total	**14,135,983**	**14,135,983**

18. FINANCIAL INSTRUMENTS (Cont)

	Carrying 2006 $000	Fair Value 2006 $000
Financial Assets		
Cash and Cash Equivalents	1,007,839	1,007,839
Receivables	2,602,877	2,602,877
Investments		
-TCorp Hour Glass	2,711,024	2,711,024
-Bond Portfolio	8,960,480	8,960,480
-Others	753,593	753,593
Advances Repayable to the Crown		
-Funded by Commonwealth Specific Purpose Loans	772,899	772,899
-Funded by Others	280,818	280,818
-Administered Borrowings	24,508	24,659
Derivatives	3,146	3,146
	17,117,184	**17,117,335**
Unrecognised Profit	151	-
Total	**17,117,335**	**17,117,335**
Financial Liabilities - Unsecured		
Overdraft	2,488,809	2,488,809
Payables	513,260	513,260
Borrowings		
-Finance Leases	148,309	148,309
-TCorp Borrowings	9,296,732	9,434,120
-Commonwealth General Purpose Borrowings	8,223	8,223
-Commonwealth Specific Purpose Borrowings	899,646	899,646
-Own Name Borrowings	800	800
-Administered Borrowings	24,508	24,659
Derivatives	3,374	3,374
	13,383,661	**13,521,200**
Unrecognised Loss	(137,539)	-
Total	**13,521,200**	**13,521,200**

18. FINANCIAL INSTRUMENTS (Cont)

(c) Interest Rate Risk

The following tables set out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk.

Financial Instruments Year Ended 30 June 2007	Less than 1 year $000	1-2 Years $000	2-3 Years $000	3-4 Years $000	4-5 Years $000	5+ Years $000	Total $000	Weighted average effective interest rate %
(i) Financial Assets								
Non Interest Bearing								
Receivables	2,922,034	193,089	-	-	-	-	**3,115,123**	-
Floating Rate								
Cash	739,584	-	-	-	-	-	**739,584**	6.39
Hour Glass Facility	2,744,675	-	-	-	-	-	**2,744,675**	14.18
Fixed Rate								
Bond Portfolio	306,864	287,608	235,535	405,942	227,080	663,545	**2,126,574**	6.80
Other Investments	123	-	-	-	-	813,737	**813,860**	10.79
Cwlth Specific Purpose Advances	22,418	23,341	24,164	24,898	25,501	630,487	**750,809**	10.15
Other Advances	24,211	24,321	24,492	21,070	18,049	67,634	**179,777**	5.62
Administered Borrowings	240	6,240	-	-	-	17,947	**24,427**	7.61
Derivatives	4,537	-	-	-	-	-	**4,537**	5.70
Total Financial Assets	**6,764,686**	**534,599**	**284,191**	**451,910**	**270,630**	**2,193,350**	**10,499,366**	
(ii) Financial Liabilities								
Non Interest Bearing								
Payables	780,718	42,407	-	-	-	-	**823,125**	-
Floating Rate								
Bank Overdrafts	2,919,691	-	-	-	-	-	**2,919,691**	6.48
Fixed Rate								
Finance Leases	41,600	5,210	649	705	766	4,743	**53,673**	5.66
TCorp Borrowings	2,184,461	19,618	36,623	1,928,360	1,925,280	3,338,170	**9,432,512**	6.19
Cwlth General Purpose Borrowings	8,092	-	-	-	-	-	**8,092**	3.00
Cwlth Specific Purpose Borrowings	26,508	27,679	28,286	29,105	29,734	732,350	**873,662**	4.60
Own Name Borrowings	-	-	-	-	300	500	**800**	6.82
Administered Borrowings	240	6,240	-	-	-	17,947	**24,427**	7.61
Derivatives	-	-	-	-	-	-	**-**	-
Total Financial Liabilities	**5,961,310**	**101,154**	**65,558**	**1,958,170**	**1,956,080**	**4,093,710**	**14,135,982**	

18. FINANCIAL INSTRUMENTS (Cont)

Financial Instruments Year Ended 30 June 2006	Floating interest rate $000	Fixed interest rate maturing in: Less than 1 year $000	Greater than 1 year but less than 2 years $000	Greater than 2 years but less than 5 years $000	Greater than 5 years $000	Total $000	Weighted average effective interest rate %
(i) Financial Assets							
Non Interest Bearing							
Receivables	-	2,426,044	176,833	-	-	**2,602,877**	
Floating Rate							
Cash	1,007,839	-	-	-	-	**1,007,839**	5.75
Hour Glass Facility	2,711,024	-	-	-	-	**2,711,024**	21.53
						-	
Fixed Rate						**-**	
Bond Portfolio	-	1,000,001	7,002,062	-	958,417	**8,960,480**	5.88
Other Investments	-	-	-	-	753,593	**753,593**	10.59
Cwlth Specific Purpose Advances	-	22,121	22,437	72,455	655,886	**772,899**	9.92
Other Advances	-	126,980	72,545	17,180	64,112	**280,818**	5.91
Administered Borrowings	-	2,240	2,946	4,968	14,355	**24,508**	8.86
Derivatives	-	3,146	-	-	-	**3,146**	
Total Financial Assets	**3,718,863**	**3,580,532**	**7,276,823**	**94,603**	**2,446,363**	**17,117,184**	
(ii) Financial Liabilities							
Non Interest Bearing							
Payables	-	443,234	70,026	-	-	**513,260**	
Floating Rate							
Bank Overdrafts	2,488,809	-	-	-	-	**2,488,809**	Note (1)
Fixed Rate							
Finance Leases	-	101,575	35,846	8,347	2,541	**148,309**	6.26
TCorp Borrowings	-	1,343,630	1,678,794	1,951,939	4,322,369	**9,296,732**	6.09
Cwlth General Purpose Borrowings	-	8,223	-	-	-	**8,223**	2.95
Cwlth Specific Purpose Borrowings	-	26,015	26,528	85,121	761,983	**899,647**	4.60
Own Name Borrowings	-	-	-	-	800	**800**	6.82
Administered Borrowings	-	2,240	2,946	4,968	14,355	**24,509**	8.86
Derivatives	-	3,374	-	-	-	**3,374**	
Total Financial Liabilities	**2,488,809**	**1,928,291**	**1,814,140**	**2,050,375**	**5,102,048**	**13,383,663**	

Note (1) The bank overdraft is for the Consolidated Fund. The Consolidated Fund is part of the Treasury Banking System, TBS, and the amount of the overdraft is set off against the credit balances of individual agencies within the TBS. The overdraft is considered to be insulated from interest rate risk as the TBS has a net surplus position. The net TBS surplus, if applicable, is invested in the short term money market to maximise the investment return. If a net overdraft position occurs, short term funds are borrowed from Treasury Corporation's come and go facility.

18. FINANCIAL INSTRUMENTS (Cont)

Derivative Financial Instruments

The Crown Entity's business results in gaps in cash flow maturities, and exposures through possible repricing of financial positions on maturity. It enters into derivative financial instruments as part of managing its debt and investment portfolios.

Debt Portfolio

TCorp was appointed to manage the Crown Entity's debt portfolio and to give Treasury management advice.

The Crown Entity has interest rate future contracts at a $280.5 million face value (2006: nil) to hedge against unfavourable interest rate movements and to maintain the portfolio duration within the agreed band.

There are no interest rate or currency swaps in the debt portfolio.

The realised and unrealised movements in the fair value of these derivative instruments are recognised in the Operating Statement.

Fair value of the Crown Entity's Debt Portfolio derivative financial instruments outstanding at year-end

	2007 $000	2006 $000
Derivative Financial Instruments Receivable		
Interest Rate Swaps	-	-
Interest Rate Futures	1,268	-
	1,268	**-**
Derivative Financial Instruments Payable		
Interest Rate Swaps	-	-
Interest Rate Futures	-	-
	-	**-**
Net Amount Receivable under Derivative Financial Instruments	**1,268**	**-**

The value of the derivative position, being insignificant, is included in TCorp borrowings.

18. FINANCIAL INSTRUMENTS (Cont)

Investment Portfolio

TCorp has been appointed to manage the Crown Entity's investments. It is authorised to invest assets of the portfolio in derivative instruments as long as the portfolio is not geared, and this does not create a net short position for the portfolio.

TCorp may use these derivatives:

- exchange-traded interest rate futures contracts
- exchange-traded interest rate options
- over–the-counter (OTC) options on Commonwealth and TCorp bonds
- swaps

Fair value of the Crown Entity's investment portfolio derivatives outstanding at year end

	2007 $000	2006 $000
Derivative Financial Instruments Receivable		
Cross Currency Swaps	-	1,642
Interest Rate Swaps	-	457
Interest Rate Futures	4,537	1,047
	4,537	**3,146**
Derivative Financial Instruments Payable		
Cross Currency Swaps	-	-
Interest Rate Swaps	-	3,190
Interest Rate Futures	-	184
	-	**3,374**
Net Amount Receivable/(Payable) under Derivative Financial Instruments	**4,537**	**(228)**

Derivative financial instruments (both assets and liabilities) were previously reported on a gross basis were reclassified to net-off transactions which are with the same counter-party. Derivative assets decreased by $299 million and derivative liabilities decreased by the same amount.

19. UNFUNDED SUPERANNUATION LIABILITY

The Crown Entity's total unfunded superannuation liability is made up of the financial assets and liabilities of the following schemes:

Scheme	Coverage	Scheme Type	Benefit Type
State Superannuation Fund (SSS)	Closed to new entrants in 1985	The entire benefit is defined by final salary and service and is not separated into employer and employee financed components	Indexed pension or lump sum
Police Superannuation Fund (PSS)	Closed to new entrants in 1988	As for SSS	Indexed pension, or lump sums available from 1 April 1988.
Parliamentary Contributory Superannuation Scheme (PCSS)	Closed to new entrants from March 2007 onwards.	As for SSS	Indexed pension or partial indexed pension plus partial lump sum
State Authorities Superannuation Scheme (SASS)	Closed to new entrants on 18 December 1992	Hybrid scheme – employer financed benefit is defined as a proportion of final or final average salary – employee financed benefit is an accumulation of employees' contributions plus interest	Lump sum; some indexed pensions available to members of schemes amalgamated to form SASS
Judges Pension Scheme (JPS)	Compulsory for members of the judiciary	Benefit is defined in terms of final salary and is employer financed.	Indexed pension
State Authorities Non-contributory Superannuation Scheme (Basic Benefit)	Closed to new entrants on 18 December 1992	Totally employer financed	Lump sum; three percent of final or final average salary for each year of service as from 1 April 1988

SASS Trustee Corporation actuary, Mercer Human Resource Consulting, calculated the unfunded liabilities of State public sector superannuation schemes.

In 2006-07, unfunded superannuation liabilities, decreased by $8,506 million. It includes funds previously held in the General Government Liability Management Fund (GGLMF), a non-superannuation investment fund.

Actuaries calculated unfunded superannuation liabilities at 30 June 2007 using:

- scheme membership data at 30 April 2007
- demographic assumptions of the 2006 Triennial Valuation of the State Super Fund Superannuation Schemes.

19. UNFUNDED SUPERANNUATION LIABILITY (Cont)

Fund information

State Super holds in trust the investments of these closed NSW public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- Police Superannuation Scheme (PSS)
- State Authorities Non-Contributory Superannuation Scheme (SANCS).

These are all defined benefit schemes where at least a component of the final benefit is derived from a multiple of member salary and years of membership. All the schemes are closed to new members.

The following figures are 2007 actuals

Member Numbers

	SASS	SANCS	SSS	PSS	JPS	PCSS	TOTAL
Contributors	37,366	59,355	19,059	2,930	138	109	118,957
Deferred Benefits	-	-	2,888	176	-	-	3,064
Pensioners	3,966	-	30,496	5,877	189	269	40,797
Pensions Fully Commuted	-	-	13,116	-	-	-	13,116

Superannuation position for AASB 119

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	TOTAL A$ 000
Accrued Liability	8,814,246	1,923,915	22,607,420	6,787,701	539,030	395,590	41,067,902
Estimated Reserve Account Balance	(5,072,168)	(525,032)	(16,646,509)	(4,098,903)	-	(302,830)	(26,645,442)
	3,742,078	1,398,883	5,960,911	2,688,798	539,030	92,760	14,422,460
Future Service Liability	(1,685,549)	(679,773)	(842,764)	(330,882)	-	-	(3,538,968)
Surplus in Excess of Recovery Available from Schemes	-	-	-	-	-	-	-
Net Liability to be Disclosed in Balance Sheet	3,742,078	1,398,883	5,960,911	2,688,798	539,030	92,760	14,422,460

19. UNFUNDED SUPERANNUATION LIABILITY (Cont)

Reconciliation of the present value of the partly funded defined benefit obligation

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Present Value at 1/7/06	8,024,830	1,844,159	22,159,608	7,069,116	580,911	390,256	40,068,880
Current Service Cost	270,798	86,147	172,403	92,604	21,376	9,031	652,359
Interest Cost	442,000	105,778	1,311,054	405,147	33,605	21,599	2,319,183
Contributions by Fund Participants	147,831	-	189,404	15,227	-	2,093	354,555
Actuarial (Gains)/Losses	175,444	(43,108)	(1,351,051)	(419,444)	(74,186)	(11,100)	(1,723,445)
Benefits Paid	(271,713)	(69,239)	118,412	(374,949)	(22,676)	(16,289)	(636,454)
Past Service Cost	-	-	-	-	-	-	-
Curtailments	-	-	-	-	-	-	-
Settlements	-	-	-	-	-	-	-
Business Combinations	-	-	-	-	-	-	-
Transfer From State Rail Authority (SRA)	25,056	178	7,590	-	-	-	32,824
Present Value at 30/6/07	**8,814,246**	**1,923,915**	**22,607,420**	**6,787,701**	**539,030**	**395,590**	**41,067,902**

Reconciliation of the fair value of fund assets

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Fair Value of Fund Assets at 1/7/06	4,763,339	669,487	10,511,807	919,342	-	271,315	17,135,290
Expected Return on Fund Assets	598,162	48,215	806,265	54,431	-	19,759	1,526,832
Actuarial Gains/(Losses)	34,639	43,278	898,669	409,383	-	25,851	1,411,820
Employer Contributions	8,021	(11,622)	4,113,344	3,075,471	22,676	101	7,207,991
Contributions by Fund Participants	147,831	-	189,404	15,227	-	2,093	354,555
Benefits Paid	(271,713)	(69,239)	118,412	(374,949)	(22,676)	(16,289)	(636,454)
Settlements	-	-	-	-	-	-	-
Business Combinations	-	-	-	-	-	-	-
Transfer From State Rail Authority (SRA)	(208,111)	(155,087)	8,608	(2)	-	-	(354,592)
Fair Value of Fund Assets at 30/6/07	**5,072,168**	**525,032**	**16,646,509**	**4,098,903**	**-**	**302,830**	**26,645,442**

Reconciliation of the assets and liabilities recognised in the balance sheet

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Present Value of Defined Benefit Obligations	8,814,246	1,923,915	22,607,420	6,787,701	539,030	395,590	41,067,902
Fair Value of Fund Assets at 30/6/07	(5,072,168)	(525,032)	(16,646,509)	(4,098,903)	-	(302,830)	(26,645,442)
Subtotal	3,742,078	1,398,883	5,960,911	2,688,798	539,030	92,760	14,422,460
Unrecognised Past Service Cost	-	-	-	-	-	-	-
Unrecognised Gain/(Loss)	-	-	-	-	-	-	-
Adjustment for Limitation on Net Asset	-	-	-	-	-	-	-
Net Liability in Balance Sheet at 30/6/07	**3,742,078**	**1,398,883**	**5,960,911**	**2,688,798**	**539,030**	**92,760**	**14,422,460**

19. UNFUNDED SUPERANNUATION LIABILITY (Cont)

Expense recognised in income statement

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Current Service Cost	270,798	86,147	172,403	92,604	21,376	9,031	652,359
Interest Cost	442,000	105,778	1,311,054	405,147	33,605	21,599	2,319,183
Expected Return on Fund assets (net of	(598,162)	(48,215)	(806,265)	(54,431)	-	(19,759)	(1,526,832)
Actuarial Losses/(Gains) Recognised in Year	140,804	(86,386)	(2,249,720)	(828,827)	(74,186)	(36,951)	(3,135,266)
Past Service Cost	-	-	-	-	-	-	-
Movement in Adjustment for Limitation on	-	-	-	-	-	-	-
Curtailment or Settlement (Gain)/Loss	-	-	-	-	-	-	-
Expense/(Income) Recognised	**255,440**	**57,324**	**(1,572,528)**	**(385,507)**	**(19,205)**	**(26,080)**	**(1,690,556)**

Amounts recognised in the Statement of Recognised Income and Expense

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Actuarial (Gains)/Losses	-	-	-	-	-	-	-
Adjustment for Limit on Net Asset	-	-	-	-	-	-	-

Cumulative Amount Recognised in the Statement of Recognised Income and Expense

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Cumulative Amount of Actuarial	-	-	-	-	-	-	-
Cumulative Adjustment for Limitation on	-	-	-	-	-	-	-

Fund Assets

	Pooled Fund 30-Jun-07	PCSS 30-Jun-07
Australian Equities	33.6%	31.9%
Overseas Equities	26.5%	28.6%
Australian Fixed Interest Securities	6.8%	11.2%
Overseas Fixed Interest Securities	6.4%	11.4%
Property	10.1%	15.9%
Cash	9.8%	1.0%
Other	6.8%	0.0%

Fair Value of Fund Assets

All Fund assets are invested by STC at arm’s length through independent fund managers.

Expected Rate of Return on Assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns are net of investment tax and investment fees.

19. UNFUNDED SUPERANNUATION LIABILITY (Cont)

Actual Return on Fund Assets

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Actual Return on Fund Assets	645,274	93,296	1,170	416,485	-	45,610	1,201,835

Valuation method and principal actuarial assumptions at the reporting date

(a) Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligation and the related current service costs.

This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

(b) Economic Assumptions (State Super, Judges and Parliamentary Super Schemes)

	Pooled Fund	JPS	PCSS
Salary Increase Rate (Excluding Promotional Increases)	4.0% pa to June 2008; 3.5% pa thereafter	4.0% pa	3.5% pa
Rate of CPI Increase	2.5% pa	2.5% pa	2.5% pa
Expected Rate of Return on Assets	7.6%	N/A	7.6%
Discount Rate	6.4% pa	6.4% pa	6.2% pa

(c) Demographic Assumptions

The demographic assumptions at 30 June 2007 are those used in the 2006 triennial actuarial valuation. A selection of the most financial significant assumptions is shown below.

SASS Contributors – the number of SASS contributors expected in any one year (out of 10,000 members), at the ages shown, to leave the fund as a result of death, disability, resignation, retirement and redundancy. Promotional salary increase rates are also shown.

Age nearest Birthday	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:								Additional promotional salary increase rate %
	Death	Total & Permanent Disability	Retirement		Resignation		Redundancy		
			Part 1	Part 3	Part 1	Part 3	Part 1	Part 3	
Males									
30	4	8	-	-	280	395	150	-	2.90
40	6	10	-	-	150	285	150	-	1.80
50	11	30	-	-	112	172	150	-	0.00
60	30	-	1,400	950	-	-	150	-	0.00
Females									
30	2	2	-	-	372	700	150	-	2.90
40	3	6	-	-	175	320	150	-	1.80
50	7	28	-	-	144	270	150	-	0.00
60	18	-	1,500	1,500	-	-	150	-	0.00

Note: The SASS Act 1987 divides employers into Part 1 (Crown and other employers), Part 2 (Local Government) and Part 3 (Hospitals and other health related bodies).

19. UNFUNDED SUPERANNUATION LIABILITY (Cont)

SSS Contributors – the number of SSS contributors expected in any one year (out of 10,000 members), at the ages shown, to leave the fund as a result of death, disability, resignation, retirement and preservation. Promotional salary increase rates are also shown.

Age nearest birthday	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:					Additional promotional salary increase rate %
	Death	Ill-health Retirement	Retirement (R60 for females)	Cash Resignation (R60 for females)	Preservation (R60 for females)	
Males						
30	4	42	-	178	95	2.90
40	6	54	-	80	140	1.80
50	11	144	-	20	50	0.00
60	30	-	6,500	-	-	0.00
Females						
30	2	6	-	204	124	2.90
40	3	21	-	72	105	1.80
50	7	103	-	30	90	0.00
60	18	-	6,300	-	-	0.00

Note: R60 stands for women who elected to retire at age 60 rather than 55.

SSS Commutation – the proportion of SSS members assumed to commute their pension to a lump sum in any one year.

Age	Proportion of pension commuted	
	Retirement	Breakdown
Later of commencement or age 55	.15	.20
	Widow	Widower
55	.2500	.2500
65	.5380	.5800
75	.4825	.5160
85	.3928	.3728

SSS Pensioner Mortality – assumed mortality rates (in 2006/07) for SSS pensioners (separately for normal retirement/spouses and invalidity)

Age	Retirement Pensioners and Spouses and Widows		Invalidity Pensioners	
	Males	Females	Males	Females
55	0.0025	0.0014	0.0081	0.0066
65	0.0070	0.0055	0.0112	0.0125
75	0.0194	0.0157	0.0505	0.0314
85	0.0945	0.0634	0.1134	0.1268

19. UNFUNDED SUPERANNUATION LIABILITY (Cont)

SSS Pensioner Mortality Improvements – per annum assumed rates of mortality improvement for SSS pensioners

Age	Improvement rates- (for years post 2006)	
	Males	Females
55	0.0152	0.0113
65	0.0101	0.0065
75	0.0087	0.0068
85	0.0052	0.0080

Historical information

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Present Value of Defined Benefit Obligation	8,814,246	1,923,915	22,607,420	6,787,701	539,030	395,590	41,067,902
Fair Value of Fund Assets	(5,072,168)	(525,032)	(16,646,507)	(4,098,904)	-	(302,830)	(26,645,441)
(Surplus)/Deficit in Fund	3,742,078	1,398,883	5,960,913	2,688,797	539,030	92,760	14,422,461
Experience Adjustments – Fund Liabilities	169,025	(43,585)	(1,352,317)	(419,444)	(74,186)	(11,100)	(1,731,607)
Experience Adjustments – Fund Assets	(291,210)	(34,352)	(898,461)	(409,383)	-	(25,851)	(1,659,257)

Expected Contributions

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Expected Employer Contributions	70,304	26,444	10,745	-	N/A	N/A	107,493

Funding Arrangements for Employer Contributions

a) Surplus/Deficit

The following is a summary of the 30 June 2007 financial position of the Fund calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*;

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Accrued Benefits	8,719,413	1,907,176	20,364,973	5,806,551	425,394	343,770	37,567,277
Net Market Value of Fund Assets	(5,072,168)	(525,032)	(16,646,507)	(4,098,904)	-	(302,830)	(26,645,441)
Net Deficit	3,647,245	1,382,144	3,718,466	1,707,647	425,394	40,940	10,921,836

b) Contribution Recommendations

Recommended contribution rates for the entity are:

19. UNFUNDED SUPERANNUATION LIABILITY (Cont)

	SASS A$ multiple of member contributions	SANCS A$ % member salary	SSS A$ multiple of member contributions	PSS A$ multiple of member contributions	JPS A$ % member salary	PCSS A$ multiple of member contributions
Crown	N/A	N/A	N/A	N/A	N/A	N/A
State Rail Authority	2.60	0.50	2.10	N/A	N/A	N/A

c) Funding Method (Pooled Fund)

The method used to determine the employer contribution recommendations at the last actuarial review was the Aggregate Funding method. The method adopted affects the timing of the cost to the employer.

Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

d) Economic Assumptions

The economic assumptions adopted by the triennial actuarial review of the Fund were:

	Pooled Fund	JPS	PCSS
Weighted-Average Assumptions			
Expected Rate of Return on Fund Assets Backing Current Pension Liabilities	7.7% pa	N/A	7.5% pa
Expected Rate of Return on Fund Assets Backing Other Liabilities	7.0% pa	N/A	7.5% pa
Expected Salary Increase Rate	4.0% pa	4.0% pa	4.0% pa
Expected Rate of CPI Increase	2.5% pa	2.5% pa	2.5% pa

Nature of Asset/Liability

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of the fund assets and the defined benefit obligation.

The following figures are 2006 comparatives

Member Numbers

	SASS	SANCS	SSS	PSS	JPS	PCSS	TOTAL
Contributors	38,702	61,624	19,717	3,268	149	128	123,588
Deferred Benefits	-	-	2,957	181	-	-	3,138
Pensioners	4,225	-	28,281	5,715	145	234	38,600
Pensions Fully Commuted	-	-	12,564	-	-	-	12,564

19. UNFUNDED SUPERANNUATION LIABILITY (Cont)

Superannuation position for AASB 119

	A$ 000	A$ 000	A$ 000	A$ 000	A$ 000	A$ 000	A$ 000
Accrued Liability	8,024,830	1,844,159	22,159,608	7,069,116	580,911	390,257	40,068,881
Estimated Reserve Account Balance	(4,763,339)	(669,487)	(10,511,807)	(919,342)	-	(276,100)	(17,140,075)
	3,261,491	1,174,672	11,647,801	6,149,774	580,911	114,157	22,928,806
Future Service Liability	(1,801,033)	(742,623)	(1,070,051)	(461,244)	-	-	(4,074,951)
Surplus in Excess of Recovery Available from Schemes	-	-	0	0	0	0	0
Net Liability to be Disclosed in Balance Sheet	3,261,491	1,174,672	11,647,801	6,149,774	580,911	114,157	22,928,806

Reconciliation of the assets and liabilities recognised in the balance sheet for the year ended 30 June 2006

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Present Value of Defined Benefit	8,024,830	1,844,159	22,159,608	7,069,116	580,911	390,257	40,068,881
Fair Value of Plan Assets	(4,763,339)	(669,487)	(10,511,807)	(919,342)	-	(276,100)	(17,140,075)
Net Liability Disclosed in Balance Sheet	**3,261,491**	**1,174,672**	**11,647,801**	**6,149,774**	**580,911**	**114,157**	**22,928,806**

Assets invested in entity or in property occupied by the entity

All assets are invested at arm's length through independent fund managers.

Movement in net liability/asset recognised in balance sheet

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Net Liability at Start of Year	3,140,900	1,176,500	14,771,500	5,343,000	431,400	157,671	25,020,971
Net Expense Recognised in the Operating Statement	129,991	11,893	(3,110,532)	808,147	149,511	(27,657)	(2,038,647)
Contributions	(9,400)	(13,721)	(13,167)	(1,373)	-	(15,857)	(53,518)
Net Liability Disclosed in Balance Sheet	3,261,491	1,174,672	11,647,801	6,149,774	580,911	114,157	22,928,806

19. UNFUNDED SUPERANNUATION LIABILITY (Cont)

Total expense (income) recognised in the Operating Statement

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	A$	A$	A$	A$	A$	A$	A$
	000	000	000	000	000	000	000
Current Service Cost	281,128	92,306	234,925	65,156	21,604	9,077	704,196
Interest on Obligation	379,238	94,129	1,227,222	321,288	27,975	19,702	2,069,554
Expected Return on Plan Assets	(317,626)	(48,955)	(670,579)	(63,435)	-	(17,756)	(1,118,351)
Net Actuarial Losses/(Gains) Recognised in Year	(212,748)	(125,587)	(3,902,100)	485,139	99,932	(38,680)	(3,694,044)
Total Included in "Employee Benefits Exp"	129,992	11,893	(3,110,532)	808,148	149,511	(27,657)	(2,038,645)

Actual Return on plan assets

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	A$	A$	A$	A$	A$	A$	A$
	000	000	000	000	000	000	000
Actual Return on Plan Assets	570,153	57,058	1,666,425	168,949	-	36,719	2,499,304

Valuation method and principal actuarial assumptions at the reporting date

(a) Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligation and the related current service costs.

This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

(b) Economic Assumptions (State Super Scheme)

	At 30 June 20(
Discount Rate	5.9%
Expected Rate of Return on Plan Assets	7.6%
Expected Salary Increases	4.0%
Expected Rate of CPI Increase	2.5%

(c) Demographic Assumptions

The demographic assumptions at 30 June 2006 are those used for the (current) 2006 triennial actuarial valuation. A selection of the most financial significant assumptions is shown below.

19. UNFUNDED SUPERANNUATION LIABILITY (Cont)

SASS Contributors

Age nearest Birthday	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:								Additional promotional salary increase rate %
	Death	Total & Permanent Disability	Retirement		Resignation		Redundancy		
			Part 1	Part 3	Part 1	Part 3	Part 1	Part 3	
Males									
30	4	8	0	0	280	395	150	0	2.90
40	6	10	0	0	150	285	150	0	1.80
50	11	30	0	0	112	172	150	0	0.00
60	30	0	1,400	950	0	0	150	0	0.00
Females									
30	2	2	0	0	372	700	150	0	2.90
40	3	6	0	0	175	320	150	0	1.80
50	7	28	0	0	144	270	150	0	0.00
60	18	0	1,500	1,500	0	0	150	0	0.00

Note: The SASS Act 1987 divides employers into Part 1 (Crown and other employers), Part 2 (Local Government) and Part 3 (Hospitals and other health related bodies).

SSS Contributors

Age nearest birthday	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:					Additional promotional salary increase rate %
	Death	Ill-health Retirement	Retirement (R60 for females)	Cash Resignation (R60 for females)	Preservation (R60 for females)	
Males						
30	4	42	-	178	95	2.90
40	6	54	-	80	140	1.80
50	11	144	-	20	50	0.00
60	30	0	6,500	0	0	0.00
Females						
30	2	6	-	204	124	2.90
40	3	21	-	72	105	1.80
50	7	103	-	30	90	0.00
60	18	0	6,300	0	0	0.00

Note: R60 stands for women who elected to retire at age 60 rather than 55.

SSS Commutation

Age	Proportion of pension commuted	
	Retirement	Breakdown
Later of commencement or age 55	.15	.20
	Widow	Widower
55	.2500	.2500
65	.5380	.5800
75	.4825	.5160
85	.3928	.3728

19. UNFUNDED SUPERANNUATION LIABILITY (Cont)

SSS Pensioner Mortality

Age	Retirement Pensioners and Spouses and Widows		Invalidity Pensioners	
	Males	Females	Males	Females
55	0.0025	0.0014	0.0081	0.0066
65	0.0070	0.0055	0.0112	0.0125
75	0.0194	0.0157	0.0505	0.0314
85	0.0945	0.0634	0.1134	0.1268

SSS Pensioner Mortality Improvements

Age	Improvement rates- (for years post 2006)	
	Males	Females
55	0.0152	0.0113
65	0.0101	0.0065
75	0.0087	0.0068
85	0.0052	0.0080

Arrangements for employer contributions for funding

The following is a summary of the 30 June 2006 financial position of the Fund calculated in accordance with *AAS 25 - Financial Reporting by Superannuation Plans*.

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Accrued Benefits	7,761,842	1,753,866	18,688,097	5,672,867	384,590	307,918	34,569,180
Net Market Value of Fund Assets	(4,763,339)	(669,487)	(10,511,807)	(919,342)	-	(276,100)	(17,140,075)
Net (Surplus)/Deficit	2,998,503	1,084,379	8,176,290	4,753,525	384,590	31,818	17,429,105

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Expected Crown Employer Contributions	-	-	-	-	-	-	-

Nature of asset/liability

If a surplus exists in the employer interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund actuary. As there is a deficiency for all Crown Entity superannuation schemes, the employer is ultimately responsible for the difference between the plan assets and the defined benefit obligations.

Funding method

The NSW Government wishes to fully fund superannuation liabilities by 2030. The Crown Entity transferred $7.2 billion from the Liability Management Fund (LMF) to State Super in 2006-07.

20. EMPLOYEE BENEFITS AND OTHER PROVISIONS

	2007 $000	2006 $000
Current	2,815,252	2,747,911
Non-Current	290,808	279,097
	3,106,060	**3,027,008**

Long Service Leave (LSL)

Although we consider the methodology, analyses and assumptions adopted to calculate these liabilities are appropriate given the data available, estimates of future costs are always inherently uncertain. Therefore differences between the ultimate costs and estimates should be regarded as normal and expected.

Valuation Methodology

An assessment of present value of accrued liabilities has been considered by an actuary.

For each future year the amounts of entitlements expected to be paid in service and on termination of employment have been determined by making a projection of each employee based on their current salary and LSL balance, assumed rates of taking LSL in service, rates of death, disablement, retirement, and resignation, and rates of salary escalation. The resulting cash flows have then been converted to a present value by discounting market yield at the reporting date on Commonwealth government bonds.

a) Long Service Leave and On-costs

	2007 $000	2006 $000
Current		
Budget Dependent Long Service Leave and Other Leave Benefits	2,714,735	2,660,089
Non-Budget Dependent Long Service Leave Pool	88,599	76,947
	2,803,334	**2,737,036**
Non-Current		
Budget Dependent Long Service Leave and Other Leave Benefits	142,881	140,005
Non-Budget Dependent Long Service Leave Pool	4,663	4,050
	147,544	**144,055**
Total Long Service Leave Provision	**2,950,878**	**2,881,091**

20. EMPLOYEE BENEFITS AND OTHER PROVISIONS (Cont)

Movement in Major Provisions:

	Budget Dependent Long Service Leave $000	Non-Budget Dependent Long Service Leave $000
Balance as at 1 July 2006	2,800,094	80,997
Add: Increase in Liability During the Year	364,933	32,424
Less: Payments	(307,411)	(20,159)
Balance as at 30 June 2007	**2,857,616**	**93,262**

SRA Workers Compensation Liability

Year 2006 liability represents the actuarial estimates of the outstanding workers' compensation liability for the pre-1996 incurred claims of State Rail Authority of NSW (SRA). Under an administrative restructure, estimated outstanding post 1996 SRA claims ($11.2 million) were vested to the Crown Entity on 30 June 2007.

The actual cost of settling claims will not be known with any certainty until several years after the claims have been incurred, due to the long term nature of workers' compensation claims. There is therefore uncertainty in projecting the outstanding workers' compensation claim liabilities in each year. In addition, the future claim experience will be affected by future economic, social and environmental factors.

	2007 $000	2006 $000
b) SRA Workers Compensation Liability		
Current	11,918	10,875
Non-Current	143,264	135,042
	155,182	**145,917**

21. PROVISION FOR OUTSTANDING INSURANCE CLAIMS

SICorp consults with an independent actuary, PricewaterhouseCoopers, to set the liability for outstanding claims for the TMF, TAC Fund and GWC Account. The liability is measured as the best estimate of the expected future payments needed to settle the present obligation at the reporting date. This estimate is based on the ultimate cost to settle claims, taking into account both normal and any superimposed inflation. Superimposed inflation is factors such as trends in court awards, as in a rise in the level and period of compensation for injury.

The estimate is then discounted to a present value at the reporting date using discount rates based on the forecast long term financial asset investment return. The table below details the rates used.

The outstanding claims liability of the Pre-Managed Fund Reserve, which is part of TMF, is determined from estimates from the member agencies. This list is vetted by the TMF Manager and approved by NSW Treasury.

	Provision for Outstanding Claims				
	Treasury Managed Fund $000	Government Workers Compensation $000	TAC Fund $000	HIH $000	Total $000
Balance at the Beginning of the Year	4,241,243	68,453	166,366	85,675	4,561,737
Additions	702,213	-	-	-	702,213
Payments	(590,553)	(5,227)	(8,292)	(30,277)	(634,349)
Actuarial (Gains)/Losses	(547,110)	56	8,042	14,305	(524,707)
Increase in Discounts	256,951	3,826	10,381	-	271,158
Balance at the End of the Year	**4,062,744**	**67,108**	**176,497**	**69,703**	**4,376,052**
Current - 2007	602,725	5,294	14,653	16,472	639,144
Non Current -2007	3,460,019	61,814	161,844	53,231	3,736,908
	4,062,744	**67,108**	**176,497**	**69,703**	**4,376,052**
Current - 2006	634,713	4,120	15,689	17,817	672,339
Non Current -2006	3,606,530	64,333	150,677	67,858	3,889,398
	4,241,243	**68,453**	**166,366**	**85,675**	**4,561,737**

(a) The TMF weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 6.81 years (2006: 6.86 years).

(b) The following average inflation (normal and superimposed) rates and discount rates were used in measuring the TMF liability for outstanding claims;

	2007 %	2006 %
Claims Expected to be Paid Not Later Than One Year:		
Inflation Rate	2.80 - 4.50	3.00 - 4.50
Discount Rate	6.80	6.60
Superimposed Inflation *	0 - 10.00	0 - 10.00
Later Than One Year:		
Inflation Rate	2.50 - 4.50	2.50 - 4.50
Discount Rate	6.80	6.60
Superimposed Inflation *	0 -10.00	0 - 10.00

* Dependant on Payment Type

22. CHANGES IN EQUITY

	Accumulated Deficit		Asset Revaluation Reserve		Total Equity	
	2007	2006	2007	2006	2007	2006
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July	(24,053,369)	(27,191,653)	2,394,829	2,205,348	(21,658,540)	(24,986,305)
Adoption of AASB 139/TC 06-04 Financial Instruments		89,377	-	-	-	89,377
Correction of Prior Period Errors	-	(947,662)	-	-	-	(947,662)
Restated Opening Balance	(24,053,369)	(28,049,938)	2,394,829	2,205,348	(21,658,540)	(25,844,590)
Changes in equity - transactions with owners as owners						
Asset Revaluation Reserve Transfer in	-	856	-	(856)	-	-
Investment Transfer in	188	137,127	-	-	188	137,127
Debt Transfer in - Administration Restructure	(171,528)	-	-	-	(171,528)	-
Employee Entitlement Liability- Administration Restructure	(398,242)	-	-	-	(398,242)	-
Asset & Liabilities - Administration Restructure	(128,826)	-	-	-	(128,826)	-
Capital Restructure	184,000	49,000	-	-	184,000	49,000
Total	(514,408)	186,983	-	(856)	(514,408)	186,127
Changes in Equity-Other than Transactions with Owners as Owners						
Surplus for the Year	1,768,801	3,796,875	-	-	1,768,801	3,796,875
Increase in Asset Revaluation Reserve						
- Land & Buildings	-	-	488,321	240,553	488,321	240,553
- Finance Lease	-	-	(506)	(42,040)	(506)	(42,040)
- Intangible	-	-		2,013	-	2,013
Transfer of Asset Revaluation Reserve for Assets Held for Sale	(40)	-	40	-	-	-
Administration Restructure - Out - Plant/Property	-	200	-	-	-	200
Other Net Increase/(Decrease) in Equity	(1,335)	2,322	-	-	(1,335)	2,322
Total	1,767,426	3,799,397	487,855	200,526	2,255,281	3,999,923
Transfers within equity						
Transfer of Realised Revaluation Reserve to Accumulated Funds on Disposal of Asset	-	-		(10,189)	-	(10,189)
Asset Reduction due to Previous Year Error	-	-	(9,221)	-	(9,221)	-
Other Equity Changes	9,221	10,189	-	-	9,221	10,189
Total	**9,221**	**10,189**	**(9,221)**	**(10,189)**	**-**	**-**
Balance at 30 June	**(22,791,130)**	**(24,053,369)**	**2,873,463**	**2,394,829**	**(19,917,667)**	**(21,658,540)**

23. INDIVIDUALLY SIGNIFICANT ITEMS

In 2006-07, there were the following significant items:

1. The LMMC liquidated all its financial assets and repaid $7,175 million to the Crown Finance Entity (CFE). This amount was then paid to State Super to reduce the State's unfunded superannuation liability.
2. Superannuation was a negative expense of $1,695 million compared to a negative expense of $2,060 million for 2005-06. This negative expense is explained by the increase in the discount rate from 5.9 per cent to 6.4 per cent resulting in a fall in funded superannuation liabilities of approximately $2 billion.
3. Due to the decision to wind-up the State Rail Authority as an operational entity the CFE accepted several of its major liabilities as at 30 June 2007. $388 million of superannuation, $170 million of debt and $11 million of workers compensation was vested to the CFE.
4. The Crown Leaseholds Entity revalued vacant Crown land resulting in a gain of $802 million. This was offset by a loss of $283 million on Crown Leasehold land.
5. A grant of $960 million was made to the Transport Infrastructure Development Corporation to enable the repayment of a large portion of this entity's debt.
6. Recurrent appropriation payments were $34,126 million an increase of $1,734 million over 2005-06. The main increases went to Health - $575 million, Education - $292 million, Aging and Disability - $166 million, Arts, Sport and Recreation - $375 million, Transport - $142 million, Police - $113 million, Rural Assistance Authority - $111 million and Community Services - $108 million.
7. Taxes, fees and fines were $18,790 million, an increase of $2,188 million on 2005-06. The increase was mainly due to stamp duty - $1,140 million payroll tax - $555 million, land tax - $313 million and gaming taxes - $120 million. Of these assessment amounts $424 million is under objection or appeal.

In 2005-06, there were the following significant items:

1. Superannuation was a negative expense of $2,060 million. The main reason for this was the increase in the discount rate from 5.2 per cent to 5.9 per cent resulting in a fall in unfunded superannuation liabilities of approximately $2 billion.
2. Insurance claims expense was $418.5 million. This was due to SI Corp's provisions for insurance claims being written back following actuarial assessment of improved claims experience.
3. Recurrent appropriation payments were $32,392 million, an increase of $3,474 million over 2005. The main increases went to Health $1199m, Education $672 million, Transport $379 million, Infrastructure & Planning $304 million, Natural Resources $416 million and Police $156 million.
4. Income from Taxes, Fees and Fines was $ 16,602 million, an increase of $752 million over 2005. The increase was mainly due to Payroll Tax $405 million and Land Tax $158 million.
5. Income from Commonwealth Grants was $17,895 million. The increase was mainly due to a Special Purpose Road Grant of $960 million, increased GST Grant $480 million, Health Care Grant $132 million, Rural Adjustment Grant $93 million and Government Schools Grant $113 million.

24. COMMITMENTS

(a) Capital Commitments

Capital commitments contracted for at reporting date but not recognised as liability are as follows:

	2007 $000	2006 $000
Capital Commitments Contracted for at Reporting Date but not Recognised as Liability are as Follows:		
- not later than one year	117,095	158,211
- later than one year but not later than five years	9,058	90,530
- later than five years	-	-
Total (including GST)	**126,153**	**248,741**

At 30 June 2007 the Crown Entity has capital commitments of $126.2 million (2006: $248.7 million) principally relating to:

Crown Property Portfolio

Capital expenditure commitments relate to the construction of a government office building in Queanbeyan $34.7 million (2006: $44.5 million), development of the Parramatta Justice Precinct $25.5 million (2006: $99.9 million), construction of a new government office building at Penrith $31.4 million (2006: $50.6 million) and refurbishment works in various other buildings $5.1 million (2006: $0.6 million).

Snowy Hydro Limited

The Crown Entity's share (58 per cent) of capital expenditure commitments included below is $29.5 million (2006: $53.1 million). The details of the agreement are disclosed at note 6 Investments in Associates and note 25 Guarantees.

(b) Operating Lease Commitments – As Lessee

At 30 June 2007, the Crown Entity, as a Lessee, has Operating Leases commitments of $405.8 million (2006: $201.7 million) principally relating to:

Crown Property Portfolio (CPP)

Crown Property Portfolio has entered into 181 operating Head Lease agreements as a lessee for office accommodation properties which are sub-leased to State government agencies.

The terms of the operating Head Leases range from 3 to 10 years. The lessee has the option to renew for further terms, and the lessor the right to review rents on specified dates. The expenditure for recurrent outgoings (including repairs and maintenance, electricity, cleaning, expenses for common areas and public risk insurance), subject to exclusion of repairs and maintenance of a structural or capital nature, is the responsibility of CPP as Lessee.

Contingent rentals are variations due to market reviews and changes to Consumer Price Index (CPI) between the actual lease and the amounts of minimum lease payments determined at the inception of the lease.

24. COMMITMENTS (Cont)

Minimum lease payments were reduced by the $1.9 million (2006: $3.8 million) final amortisation of a $68 million lease incentive received in 1995, and rent-free lease incentives received.

NSW Self Insurance Corporation (SICorp)

The operating lease relates to the rental of SICorp's Head office. The lease is a non-cancellable lease with a term of six years and an option to extend for a further four years. A market review of rents payable is undertaken biannually. On expiration of the lease the rental premises are to be returned to their original condition. A make-good restoration provision has been taken up.

Future minimum rentals payable under non-cancellable operating leases – As Lessee at 30 June:

	2007 $000	2006 $000
Future Non-Cancellable Operating Lease Rentals not Provided for and Payable:		
- not later than one year	88,180	66,031
- later than one year but not later than five years	252,563	101,331
- later than five years	65,083	34,332
Total (including GST)	**405,826**	**201,694**
The Following Liabilities have been Recognised in Respect of Non-Cancellable Operating Leases:		
Current:		
Onerous Lease Contracts (note 33)	2,547	2,671
Lease Incentives (note 32)	1,408	1,909
	3,955	**4,580**
Non-Current:		
Onerous Lease Contracts (note 33)	10,066	11,784
Lease Incentives (note 32)	7,008	-
	17,074	**11,784**

(c) Operating Lease Commitments – As Lessor

At 30 June 2007 the Crown Entity, as a lessor, has Operating lease commitments of $383.6 million (2006: $463.2 million) principally relating to:

Crown Finance Entity– Motor Vehicle Leases

The Crown Finance Entity's Operating leases relate to the fleet of motor vehicles managed by the Department of Commerce that are leased to government agencies. These leases are under non-cancellable operating leases with terms between 1 to 2 years with no option to extend.

The Head Lessors lease vehicles to the Crown Entity pursuant to a finance lease called the Head Lease (refer 24 (e): Finance Lease as a Lessee). The Crown Entity on-leases the vehicles as Lessor, to the Lessee agencies under operating leases. The Crown Entity, as Lessor, bears the ultimate risk of losses on disposal of vehicles. For ease of administration during the term of the lease, the Reserve Accounts are held by the Head Lessors.

24. COMMITMENTS (Cont)

(c) Operating Lease Commitments – As Lessor (Cont)

Crown Finance Entity – Motor Vehicle Leases (Cont)

Under the facility structure the Head Lessors are able to utilise the application of section 59(2A) of the Income Tax Assessment Act.

The Pricing/Lease Rates are predicated on a defined set of assumptions similar to those found in other domestic tax-based leasing transactions. The Funding Margin varies according to the applicable interest rate and the assumed Residual Values for individual vehicles. Under most scenarios the effective Funding/Lease Rate is below the NSW Treasury Corporation’s (TCorp) cost of funds.

Individual vehicles are leased for an agreed period (usually 2 years) and then sold. The profit or loss on disposal of each User Group’s vehicles is deposited into their respective Reserve Account. Specifically, if the vehicle is sold for a profit, the profit is credited to the Reserve Account. Conversely, if the vehicle is sold for a loss, the loss is debited to the Reserve Account.

Reserve Accounts have been established for the following User Groups:

- Health
- RTA
- National Parks/Others.

Macquarie Bank, as Manager of the facility, determines the Residual Values which applies to leased vehicles. The Residual Values are determined taking into account sales history analysis of each fleet on a two year average weighted in favour of the most recent experience, Macquarie’s expectations for future Residual Values, and the respective Reserve Account balances.

Once set, Residual Values generally apply for a six month period after which they are updated to reflect trends in the market place and changes in future expectations. If there are large unexpected movements in the motor vehicle second hand market, Residual Values could be updated on a more regular basis with consultation with StateFleet and TCorp. Residual Risk Fees apply to vehicles from the commencement of their leases and, once set for an individual vehicle, do not change for that vehicle’s lease term

The Residual Risk Fees are collected on a monthly basis and deposited into the respective Reserve Accounts.

The facility is managed by Macquarie on behalf of the Head Lessors, Lessor, Investors and Debt Financiers. State Fleet and TCorp manage the facility on behalf of the Lessee.

StateFleet also acts as Fleet Manager for the Head Lessors.

The Treasurer of NSW has granted an exemption from stamp duty for the lease between Macquarie Syndication (MS17) and NSW. MS 17 is a special purpose company set up to lease the vehicles to NSW. It funds itself from equity and debt from the Macquarie Bank Group (MS 12) and BNP Paribus Group (Henaross). Stamp duty is payable on the leases between MS17 and the Head Lessors (currently Henaross (for BNP Paribas) and Macquarie Syndication (MS12).

The RTA provides formal exemptions from transfer of registration duty for the sale and leaseback of vehicles.

24. COMMITMENTS (Cont)

(c) Operating Lease Commitments – As Lessor (Cont)

Crown Leaseholds Entity – as Lessor

Crown Leaseholds Entity has entered into operating leases on the land it holds. The lands are leased to farmers, private individuals, companies and other State and Federal government agencies. The lease terms range from 1 year to 99 years and some are perpetual.

The leases and the lease conditions are classified into the following categories:

Crown Lands Act 1989 (CLA)

- **Lease**

  This type of lease can be granted for a period of up to 99 years and conditions are imposed in accordance with the specific requirements of the leased area, etc. In most instances, it is the land only that is leased. It is recognised that the improvements belong to the lessee or there is a right for the lessee to remove improvements at the termination of the lease (with the consent of the Minister).

- **Licence**

  These tenures are terminable at will by the Minister and generally have no set term.

- **Enclosure Permit**

  This is a permit to enclose a Crown road or watercourse and is attached to the land that is either freehold or under perpetual lease, but not a licence.

Crown Lands (Continued Tenures) Act 1989 (CTA)

- **Perpetual Lease**

  This is as lease held in perpetuity over land (i.e. it does not expire) subject to compliance with conditions including payment of annual rent, etc, and is generally available at low-cost. If the lease is surrendered or terminated, no compensation is payable to the holder.

- **Term Lease**

  This is a lease held for a stated period. It is held over land only and the land may be purchased if the Minister agrees. The purchase price for the land is market value.

- **Special Lease**

  These leases were granted for a period of up to 40 years under previous legislation for a variety of purposes. The land can only be used for the purpose for which the lease was granted.

- **Commonwealth Leases**

  These leases are generally tenures granted for a specific purpose such as telecommunications or rifle ranges, etc.

- **Consumer Price Index (CPI) increases**

  Non-cancellable leases rental charges are escalated annually on a CPI basis.

24. COMMITMENTS (Cont)

(c) Operating Lease Commitments – As Lessor (Cont)

Crown Property Portfolio (CPP) – as Lessor: Head Leases

Under the Memorandum of Understanding, the Crown Property Portfolio leases premises to various Government Agencies. The provisions of the Memorandum are generally based on marketplace conditions applicable to office buildings in commercial centres. CPP leases out premises it owns as well as premises it leases.

The term of the tenancy agreement is indefinite with the Agency required to give 18 months notice before they vacate. Termination of part tenancies is permitted subject to a variety of conditions being satisfied.

Market-based rent reviews are conducted at two yearly intervals. There are no ratchet clauses in place and tenants are charged an effective rental, which takes into consideration incentives available in the marketplace.

Generally, tenants are expected to make-good the premises by undertaking a physical make-good (restoring the premises to a previously agreed standard) when the lease expires, or by negotiating a financial settlement with CPP.

Future minimum lease payments receivable as income from non-cancellable operating leases.

	2007 $000	2006 $000
Future Non-cancellable Operating Lease Receivables:		
- not later than one year	100,102	164,567
- later than one year but not later than five years	124,113	147,209
- later than five years	159,427	151,447
Total (including GST)	**383,642**	**463,223**

(d) Sub – Leases

Crown Property Portfolio (CPP)

CPP has entered into commercial property leases by subleasing the majority of its Head leased office accommodation properties to government agencies. The details are disclosed as below.

	2007 $000	2006 $000
Future Minimum Lease Payments under Non-cancellable Operating Leases that will be Recouped under Sub-leases but not Provided for:		
- not later than one year	87,844	65,702
- later than one year but not later than five years	251,221	99,791
- later than five years	64,796	33,618
Total (including GST)	**403,861**	**199,111**

24. COMMITMENTS (Cont)

(e) Finance Lease Commitments – as Lessee

At 30 June 2007 the Crown Entity has finance lease commitments as a lessee of $53.7 million (2006: $148.3 million) principally relating to:

Crown Finance Entity – Motor Vehicle Leases

The Crown Finance Entity has entered into a transaction, initiated by NSW Treasury and arranged by TCorp, Macquarie and BNP, under a finance lease for the provision of passenger and light commercial vehicles for NSW agencies.

The initial vehicle limit under the facility is $200 million. This facility is a leveraged lease structure funded on a floating rate basis with the liability exposure borne by the Crown Finance Entity.

The facility had an initial 10 year term with an evergreen mechanism. These leases do not have renewal and or purchase options. The existing lease agreements are expected to terminate within the next 2 years and as a result no new leases have been issued since January 2006.

The weighted average interest rate implicit in the lease of the Crown Finance Entity is 5.7 per cent (2006: 6.3 per cent).

Crown Property Portfolio (CPP)

CPP has a finance lease on Noel Park House, Tamworth, with a term of 25 years and no option to purchase on expiry of the lease in 2017. The discount rate implicit in the lease is 8.31 per cent pa.

CPP exercised its option to purchase the McKell Building, Sydney Central, over which it previously held a finance leases. The asset is now Owned Property.

Future minimum lease payments payable under finance leases:

	2007 $000	2006 $000
Minimum Lease Payment Commitments in Relation to Finance Leases Payable as Follows:		
- not later than one year	43,596	107,075
- later than one year but not later than five years	9,486	45,416
- later than five years	5,776	6,971
Minimum Lease Payments	58,858	159,462
Less: Future Finance Charges	(5,185)	(11,153)
Present Value of Minimum Lease Payments	53,673	148,309
Classified as :		
Current Borrowing (note 17)	41,600	100,886
Non Current Borrowings (Note 17)	12,073	47,423
Total per Balance Sheet	53,673	148,309

24. COMMITMENTS (Cont)

(f) Other Commitments

At 30 June 2007 the Crown Entity had Other Commitments contracted for at reporting date but not recognised as liabilities, of $5.4 million (2006: $49.6 million).

	2007 $000	2006 $000
Other Commitments Contracted for at Reporting Date but not Recognised as Liability are as Follows:		
- not later than one year	667	49,591
- later than one year but not later than five years	278	-
- later than five years	4,524	-
Total (including GST)	**5,469**	**49,591**

Land Development Working Account

In March 2004 the Land and Environment Court directed the Minister assisting the Minister for Natural Resources (Lands) to acquire a parcel of Land owned by Nedoni Pty Ltd. The Land is located at Byron Bay. It is intended that the Minister will acquire the parcel of Land on behalf of the Crown. The potential liability to LDWA could be up to $3 million being the land value and other costs of acquisition. Due to unresolved issues concerning the amount of land to be acquired, a reliable land valuation estimate could not be determined at this stage. A liability has not been recognised but a commitment of $3 million (2006: $3 million) is included above.

Snowy Hydro Limited (SHL)

The Crown Entity's share (58 per cent) of SHL's Other Commitments included above is $5.4 million (2006: $46.6 million). The details of the agreement are disclosed at note 6 Investments in Associates and note 25 Guarantees.

Joint Government Enterprise Limited (JGE) – Water for Rivers

JGE was established as a joint enterprise by the Commonwealth Government, the Victorian Government and the New South Wales Government on 12 November 2003.

As per the agreement NSW Government ("NSW") has to pay $150 million in total to be paid each quarter over 10 years. NSW has paid $ 75 million until 30 June 2007. The remaining commitment is $ 75 Million as at 30 June 2007 (2006: $90 Million). In addition NSW's share in joint "Funding Account" $ 54 million (2006: $58 million) is also committed. Refer Note no. 15.

25. GUARANTEES

Government Insurance Act 1927

Under the *Government Insurance Act 1927*, the State guarantees GIO liabilities for general, life and reinsurance policies that it issued until 15 July 1992.

Actuarial assessment of the GIO liabilities is:

	31 Dec 2006 $m	31 Dec 2005 $m
General insurance	204	215
Life insurance	72	75
Inward reinsurance	38	68
	314	**358**

The guarantee on these policies continues under the State Government Deed issued for GIO's privatisation and subsequent purchase by AMP Limited.

Structured Finance Activities

Through the Structured Finance Activities (SFA) Special Deposits Account, the State began several finance leases for rail stock and electricity assets. SFA has two contingent liabilities:

- The Crown Entity indemnity for each transaction. The exposure is for change of law and administration risk to the parties in the lease agreement
- The Crown Entity has a third-party risk for money on deposit with a counterparty. The counterparty's contingent liability is estimated at $443 million (2006: $543 million) and reflects the term nature of the deposits and the value of the Australian dollar against the US dollar, Canadian dollar and Japanese Yen. TCorp regularly monitors the risk on behalf of the Crown.

During 2006-07, there were no significant changes in the deposit counterparties' credit standings of BBB+ to AAA.

Two leases over rail stock involve certain swap transactions for which the Crown Entity has provided indemnity. An additional potential exposure arises under these swaps. However, the overall lease transactions are structured such that there is a zero net position under the swaps.

26. CONTINGENT LIABILITIES

Snowy Hydro Limited

On 28 June 2002, the Commonwealth's Snowy Mountain Hydro-electric Authority and the electricity trading company, Snowy Hydro Trading Propriety Limited became a new public company, Snowy Hydro Limited (SHL). This is owned by NSW, Victoria and the Commonwealth. NSW owns a 58 per cent share in the company and it has entered into guarantees, indemnities and deeds as part of the agreements leading to the corporatisation of the Snowy Scheme. It is not possible to estimate the amount of exposure at this time for the following situations.

Each of the initial five SHL directors have a Deed of Indemnity against claim costs from liabilities transferred from the former Snowy Mountain Hydro-Electric Authority and for putting corporatisation agreements in place. The duration of the risk is for any claim lodged before June 2007 which has now passed. There are currently no known claims. Directors must maintain risk insurance cover and SHL has a back-to-back indemnity indemnifying the governments for any legally allowable claim costs incurred. These directors are no longer on the board.

If any change to the Snowy Water licence has an adverse financial impact for SHL, the company will receive that corresponding amount in compensation. NSW may recover 42 per cent of this compensation if Victoria and the Commonwealth agree to water licence changes. No major amendments to the Snowy Licence are currently proposed. The licence expires in 2079 or when ended.

If an instruction from the Water Ministerial Corporation to SHL causes spills or a Jindabyne Dam release causes downstream damage, the Crown Entity will compensate SHL for the proportion of claims it incurs. NSW will pay 58 per cent of the cost if the Commonwealth and Victoria also agreed with the instruction. No claims currently exist. The risk of exposure should be very low for several years after corporatisation while sufficient water savings are found and allocated to the Snowy River. This indemnity lasts while the licence is in place.

If legislation requires SHL to modify its structures or lower dam levels to reduce the impact of cold-water releases, NSW will provide 58 per cent of the amount necessary to maintain financial covenants and credit rating for up to 2009. Applicable legislation is the *Water Management Act 2000*. The Environmental Protection Authority has never asked for a dam structure to be modified for this reason in NSW. Any likelihood of this is further lessened by NSW's cold-water strategy where SHL does not have to modify dams or dam levels to reduce cold-water pollution until 2009.

Under a Tax Compensation Deed, NSW can receive 58 per cent of the income tax SHL pays under a tax sharing agreement with the Commonwealth. If accumulated dividend imputation credits within the company have not been fully distributed to a shareholder government before the sale of more than 5 per cent of its shares, the government selling its shares must repay the Commonwealth the value of the undistributed dividend imputation credits it was entitled to receive. The deed expires either with the end of the licence in 2077 or when government shareholders sell their shares.

26. CONTINGENT LIABILITIES (Cont)

TCorp Guarantees

The government guaranteed the securities, borrowings and derivative liabilities issued by TCorp with a market value of $32.3 billion (2006: $29.7 billion) under the *Public Authorities (Financial Arrangements) Act 1987*.

TAB

The government indemnified TAB Limited against income drops from monitoring-fee reductions determined by the Minister for Gaming and Racing. Hoteliers and registered clubs pay TAB the fee for Centralised Monitoring System (CMS) gaming devices.

The government also indemnified TAB under the Deed of Undertaking and Indemnity against loss during the CMS licence term if the fee is redetermined. However, this excludes any redeterminations made in line with the method that the Independent Pricing and Regulatory Tribunal used to set the rate of return in the original 1998 fee determination.

TAB claimed for up to $1.51 million a month for May to December 2004 after the Minister redetermined the monitoring fee in April 2004. The government disputed the claim and the matter was decided by an independent expert as designated in the Deed of Understanding and Indemnity. The expert found in favour of the government and the claim has been withdrawn.

NSW Treasury Corporation

TCorp has issued unconditional payment undertakings for some government authorities in the national wholesale electricity market to pay the system administrators any amount up to a total maximum agreed by the participants.

It has also issued undertakings for other government authorities for their performance under contracts with third parties.

These amounts are recoverable from the government authority participants and are government guaranteed. At year end, the agreed aggregate amounts were $1,587 million (2006: $571 million).

Sale of Pacific Power International

As a condition of the Pacific Power International sale, the State must compensate the electricity industry superannuation fund trustee for a shortfall of assets in the reserves of the fund relating to the transfer of defined benefit scheme membership to Connell Wagner Pty Ltd.

The liability would arise if there was a shortfall when:

- the purchaser, Connell Wagner, ceased being an employer in the fund
- the last benefit was paid
- the relevant assets were exhausted.

The liability would arise at the earliest of these events. There would only by one payment.

26. CONTINGENT LIABILITIES (Cont)

The payment would be the lower of:

- the actual shortfall between fund assets and fund liabilities
- the potential shortfall if anticipated investment returns 4.5 per cent a year (excluding CPI) had not been realised.

There is no expected liability, with current forecasts on investment returns (2006: none).

Pacific Power – Power Stations

Pacific Power, through its subsidiary Pacific Power (Subsidiary No.1) Pty Limited was in a consortium to construct the Tarong North and Callide C power stations. The engineering procurement and construction (EPC) contracts required a guarantee from the consortium's parent companies. When Pacific Power was dissolved, the Treasurer issued a replacement guarantee, and other Pacific Power guarantees were transferred to the Treasurer. Although the guarantees are enforceable under a range of conditions, they mainly cover the consortium's failure to meet contractual obligations.

The parties to the consortium are liable for their particular commitments under the contracts. The other parties are also liable if one party is unable to pay.

Both power stations are all but complete. An Interim Final Certificate has been issued for the Callide Power Station. Some defect matters are outstanding for the consortium, including Pacific Power (Subsidiary No.1). All prerequisites for an Interim Final Certificate for Pacific Power (Subsidiary No.1) have been achieved for the Tarong North power station.

The change of this claim being exercised against the State is remote. The other parties in the consortium are very large well established businesses so there is no real chance of inability to pay. Issuance of a Final Certificate will substantially reduce future exposure for these guarantees.

26. CONTINGENT LIABILITIES (Cont)

Contracts with Private Sector Parties

The State has guaranteed the obligations performance of various statutory authorities with private sector party contracts. There are current outstanding guarantees for:

- Sydney Harbour Tunnel
- Macarthur Water Filtration Plant
- M2 Motorway
- Olympic Multi-Use Arena
- Olympic Stadium
- Eastern Distributor
- Illawarra and Woronora Water Treatment Plant
- Prospect Water Filtration Plant and Treatment Works
- Cross City Tunnel
- Western Sydney Orbital
- Eastern Creek Alternative Waste Treatment Plant
- Lane Cove Tunnel
- Mater Hospital
- Long Bay Prison and Forensic Hospital
- Suburban Rolling Stock
- Bonnyrigg Communities Public Housing
- VISY Mill: Tumut Timber Supply Agreement

Floating Interest Rate Exposure on Motor Vehicle Financing Arrangements

The State's motor vehicles are financed under one external leasing arrangement (Tranche 3) and one internal leasing arrangement managed by StateFleet and funded by TCorp (Tranche 4). Two external leasing arrangements, Tranches 1 and 2 were terminated in June 2006.

The two Tranches are funded on a floating rate basis. Effectively there is a floating rate principal exposure of $574 million as at 30 June 2007 (2006 $578 million).

The following contingent liabilities are for Crown finance and property activities. The Report on State Finances contains the residual Crown contingencies which are the responsibility of other state public sector agencies.

26. CONTINGENT LIABILITIES (Cont)

Commonwealth Native Title Act

Under the Commonwealth Native Title Act 1993, claims may be lodged for land currently held as inventories. However, inventories are not offered for sale until Native Title interests are extinguished through compulsory acquisitions or where the Native Title Tribunal grants a non-claimant application. These claims are complex and currently unquantifiable and do not directly relate to the land value in the financial statements.

The Crown pays any future compensation claims for land disposals, not the purchaser. This then has no impact on the value of land in the financial statements.

Unclaimed Money

The Crown Entity treats Consolidated Fund unclaimed money payments as income. However, claims can be legally lodged for several years after the money is paid into the Fund. These future claims are a form of contingent liability and they cannot be estimated.

Office of State Revenue

The State Debt Recovery Office is reviewing some infringement matters to decide if special circumstances exist for payment returns. The Crown Solicitor is currently dealing with 135 matters for OSR, and the settlement estimate of each is unspecified.

GST Debts

The Crown Entity has operating lease revenue commitments receivable of $383.6 million (2006: $463.2 million). These create a future GST contingent liability of $34.9 million (2005: $42.1 million).

	2007 $000	2006 $000
Contingent Liabilities		
GST Payable		
Operating Lease Commitments - Lessor	34,876	42,111
Total (including GST)	**34,876**	**42,111**

Electricity Tariff Equalisation Ministerial Corporation (ETEMC)

At 30 June 2007 ETEMC showed a receivable from generators of $121 million. This amount was received on 27 July 2007.

Under the ETEF payment rules, the Fund is required to repay this to the generators when ETEMC has surplus fund.

27. CONTINGENT ASSETS

HIH Collapse

Because of the HIH collapse, the Crown Entity assumed builders warranty and third party motor insurance liabilities of about $650 million. An actuary estimated the discounted present value of the outstanding liability to be $129.5 million as at 30 June 2007. (2006: $176.8 million)

The liquidators currently intend to distribute various percentages up to "more than 50 per cent" depending on the scheme company. In 2007, the Crown Entity received payments totalling $94.6 million (2006 28.2 million)

GST Credits

The Crown Entity has capital commitments of $126.2 million (2006: $248.7 million) and operating lease commitments payable of $405.8 million (2006: $201.7 million). The recoverable input tax credits constitute a contingent asset of $48.9 million (2006: $45.5 million).

	2007 $000	2006 $000
GST Recoverable Input Tax Credits		
Capital Commitments	11,468	22,613
Other Commitments	489	4,508
Operating Lease Commitments - Lessee	36,894	18,336
Total	**48,851**	**45,457**

28. CASH AND CASH EQUIVALENTS

Cash on Hand and at Bank	685,306	948,022
Short Term Deposits	54,278	59,817
Total Cash and Cash Equivalents	**739,584**	**1,007,839**

In 2006-07, the Governor approved a Crown Entity financial accommodation from TCorp for $3,000 million (2006: $2,500 million) under the Public Authorities (Financial Arrangements) Act 1987. The financing facility covered short term cash requirements caused by seasonal fluctuations in government receipts. At 30 June 2007, $ 1,101 million of this was drawn down (2006: $743 million).

Of the cash on hand and at bank, $174.5 million is restricted cash assets (2006: $150.9 million). This is cash in Special Deposit Accounts and trust funds that can only be used in line with the Special Deposit Account legislation and for trust fund purposes. Notes 31 (Special Deposits Accounts) and 30 (Trust Funds) detail these transactions.

Cash and cash equivalents in the Consolidated Balance Sheet are cash at bank, cash on hand, restricted cash in special deposit accounts and other short term deposits.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

29. CASH FLOW INFORMATION

(a) Reconciliation of Cash and Cash Equivalents

For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents include; cash at bank, cash on hand, short term deposits and bank overdraft.

Cash and cash equivalents assets recognised in the Consolidated Balance Sheet are reconciled at the end of the financial year to the Consolidated Cash Flow Statement as follows:

	2007 $000	2006 $000
Cash on Hand and at Bank	685,306	948,022
Short Term deposits	54,278	59,817
Total Cash and Cash Equivalent	739,584	1,007,839
Bank Overdraft	(2,919,691)	(2,488,809)
Net Cash and Cash Equivalents (per Cash Flow Statement)	(2,180,107)	(1,480,970)

(b) Reconciliation of Cash Flows from Operating Activities to the Change in Net Assets

	2007	2006
Surplus for the Year	1,768,801	3,796,875
Non Cash Items Added Back		
Increase of Investment in Associated Company	(23,765)	(73,791)
Asset Revaluation Decrement/(Increment)	55,932	(27,648)
Write Off/Write Down Expenses	-	523
Depreciation/Amortisation	27,788	43,412
Non Cash Finance Costs	(18,280)	(17,854)
(Decrease)/Increase of Provision for Doubtful Debts	(148)	265
Loss on Asset Disposals	66,356	28,848
Land Transferred to Other Government Agencies	12,822	3,632
Equity Restructure	(398,242)	-
Other	(7,523)	(3,924)
	(285,060)	(46,537)
Change in Operating Assets and Liabilities		
Movement in Working Capital	(390,833)	201,567
Decrease in Other Liabilities	(8,648,533)	(2,382,905)
(Increase)/Decrease in Other Assets	(18,998)	51,751
	(9,058,364)	(2,129,587)
Movement for The Year	(9,343,424)	(2,176,124)
Net Cash Flow from Operating Activities	**(7,574,623)**	**1,620,751**

30. TRUST FUNDS

	2007 $000	2006 $000
Trust Monies Held by the Crown Entity on Behalf of:		
Olympic Coordination Authority Payables	1,798	1,698
State Rail Authority Windup	1,300	-
Compensation Deposits re Land Acquisition Fund	1,028	168
Consumer Affairs Trust	112	112
Other	55	50
	4,293	**2,028**

The Trustee Act 1925 requires that trust funds should be held separate from other operating funds of the agency. The Crown Entity has not kept a separate bank account for the above trust funds due to the immateriality of the amounts involved.

31. SPECIAL DEPOSIT ACCOUNTS

The Crown Entity operates ten accounts within the Special Deposits Account. These accounts are:

NSW Policyholders Protection Fund

The Insurance Protection Act 2001 established this fund to hold taxes and other payments to meet home building and third-party motor accident insurance policy claims of declared insolvent insurers. In 2006-07, receipts were $67 million (2006: $86.8 million).

Non-Budget Long Service Leave Pool

This account holds long service leave funds for certain budget dependent agencies that are now non-budget dependent.

Structured Finance Activities

This account is used to manage cross border leases and other structured finance activities arranged by TCorp.

Confiscated Proceeds Account

The Criminal Assets Recovery Act 1990 established this account to hold money recovered from criminals until used in accordance with the Act.

Petroleum Products Subsidy Account

This makes payments under the Commonwealth's Petroleum Products Subsidy Scheme and is reimbursed by the Commonwealth. On the instructions of the Commonwealth this scheme will be woundup after 30 June 2007 and the account closed.

31. SPECIAL DEPOSIT ACCOUNTS (CONT)

Workers Compensation (Bushfire, Emergency and Rescue Services)

This is a special workers compensation scheme for bushfire fighters, emergency service workers and rescue association workers.

Builders Warranty Insurance

This is used to manage reinsurance arrangements the government has put in place to help stabilise the building warranty insurance market.

General Government Liability Management Fund

The *General Government Liability Management Fund Act 2002* established the Fund to more flexibly manage the General Government Sector's financial position and its net financial liabilities with a non-superannuation investment fund. In 2006-07 the financial assets of the fund were transferred to reduce the State's unfunded superannuation liability.

Health Super-Growth Fund

The *Appropriation (Health Super-Growth Fund) Act 2003* established this to fund public health capital works and services from monies and investment proceeds. The fund was closed under the *State Income and Other Legislation Amendment (Budget Measure) Bill 2006* with the capital from the fund being transferred to the Liability Management Ministerial Corporation.

31. SPECIAL DEPOSIT ACCOUNTS (Cont)

NSW Self Insurance Corporation

This fund was established under the *NSW Self Insurance Corporation Act 2004.* The Corporation provides self insurance coverage for general government budget dependent agencies.

Accounts	NSW Policy Holders Protection Fund $000	Non Budget Long Service Leave Pool $000	Structured Finance Activities $000	Confiscated Proceeds Account $000	Petroleum Products Subsidy $000
Balance 1.7.2005	25,281	25,093	306	37,685	50
Plus Receipts	86,809	13,301	150	11,049	359
Less Payments	(51,840)	(18,833)	(104)	(12,958)	(359)
Balance 30.6.2006	**60,250**	**19,561**	**352**	**35,776**	**50**
Plus Receipts	67,381	27,014	129	10,744	26
Less Payments	(59,098)	(20,159)	(148)	(1,301)	(26)
Balance 30.6.2007	**68,533**	**26,416**	**333**	**45,219**	**50**

Accounts	Workers Compensation $000	Building Warranty Insurance $000	General Government Liability Management Fund $000	Health Super Growth Fund $000	NSW Self Insurance Corporation $000
Balance 1.7.2005	5,333	20,335	4,055,150	421,688	75,325
Plus Receipts	7,103	1,156	2,678,678	21,121	1,929,580
Less Payments	(3,789)	(3)	(4,766)	(442,748)	(1,700,110)
Balance 30.6.2006	**8,647**	**21,488**	**6,729,062**	**61**	**304,795**
Plus Receipts	4,023	1,608	450,885	-	1,652,917
Less Payments	(4,545)	(1,573)	(7,179,947)	(61)	(1,861,805)
Balance 30.6.2007	**8,125**	**21,523**	**-**	**-**	**95,907**

The transactions for these accounts are recognised in the financial statements.

32. DEFERRED INCOME

	2007 $000	2006 $000
Current	21,419	21,920
Non Current	222,956	235,959
	244,375	**257,879**

(a) Incentive from lessor

A lease incentive payment of $68 million was received from the former SAS Trustee Corporation in January 1995 and relates to a twelve-year lease on the Governor Macquarie Tower. The lease incentive is recognised as a reduction of Head Lease Expenses over the term of the lease.

Lease rent free incentives were received on a 6-year lease for Macquarie Tower Parramatta ($5.15 million) in July 2006 and on an 8-year lease for Governor Macquarie Tower ($4.4 million) in January 2007. The lease incentives are recognised as a reduction of Head Lease Expenses over the term of the leases.

Lease Incentive Payment Received upfront	68,000	68,000
Less: Previous Years Amortisation	(66,091)	(62,272)
Less: Current Year Amortisation	(1,909)	(3,819)
	-	1,909
Lease Rent Free Incentive Received	9,550	-
Less: Current Year Amortisation	(1,134)	-
	8,416	1,909
Current Liability	1,408	1,909
Non Current Liability	7,008	-
Total Liability	8,416	1,909

(b) Prepaid long-term leases

The Crown Properties as lessor has leased the following properties on long term operating leases of over 50 years and received prepaid rentals, which it is recognising as income on a straight line basis over the lease terms: Goodsell Building, Colonial State Bank Centre, Aurora Place, Sir Stamford Hotel, Wentworth Chambers and Agar Steps Terraces.

Prepaid Rental Payment Received Upfront	185,791	185,791
Less: Previous Years Amortisation	(17,107)	(15,808)
Less: Current Year Amortisation	(1,764)	(1,299)
	166,920	168,684
Current Liability	1,764	1,764
Non Current Liability	165,156	166,920
Total Liability	166,920	168,684

32. DEFERRED INCOME (Cont)

(c) Licence Fees

Licence fees received in year 2006 is recognised on a straight-line basis over the specified period of time in accordance with the substance of the relevant agreement. During the year an amount of $18.2 million is recognised as income.

	2007 $000	2006 $000
Licence Fees Received	91,235	91,235
Less: Previous Years Amortisation	(3,949)	-
Less: Current Year Amortisation	(18,247)	(3,949)
	69,039	87,286
Current Liability	18,247	18,247
Non Current Liability	50,792	69,039
Total Liability	69,039	87,286

33. OTHER LIABILITIES

	2007	2006
Current:		
Unearned Revenue	22,486	24,053
Stamp Duty and Tax	14,196	-
Builders Warranty Claim Provision	21,523	21,489
Provision for Shortfall in Lease Payments	2,547	2,671
Provision for Land Remediation	-	24,145
Provision for Restoration Costs	2,874	3,718
Rent Received in Advance	2,617	3,081
Confiscated Proceeds	45,219	35,776
Premium Received in Advance	6,894	4,688
Management, Incentive and Other Fees	33,045	24,199
Special Deposit and Trust Accounts	12,418	10,675
Other	14	385
	163,833	**154,880**
Non-Current:		
Provision for Shortfall in Lease Payments	10,066	11,784
Provision for Land Remediation	-	99,710
Provision for Restoration Costs	15,570	6,995
Aboriginal Land Council Claim	1,042,235	1,017,460
Other	109	332
	1,067,980	**1,136,281**
Total	**1,231,813**	**1,291,161**

33. OTHER LIABILITIES (Cont)

(a) Builders Warranty Insurance

This pool is used to manage re-insurance arrangements put in place by the Government to provide stability in the building warranty insurance market. Movement of this account is shown in note 31.

(b) Confiscated Proceeds Account

This fund was established by the Criminal Assets Recovery Act 1990 to hold monies recovered from criminals until these monies are used in accordance with the Act. Movement of this account is shown in note 31

(c) Provision for Shortfall in Lease Payments

The Provision for Sub-lease Income Shortfall is for the Crown Properties Portfolio (CPP) head leases on Colonial State Bank Centre, Martin Place, Sydney and Pacific Power Building, Sydney. The provision is the net present value of the excess of the head lease commitments over the estimated sub-lease rentals over the expected period of the shortfall. A discount rate of 6.02 per cent was used and the level of the provision is reviewed at the end of each year and an adjustment made to the Operating Statement.

	2007 $000	2006 $000
Carrying balance at the beginning of year	14,455	11,797
Increase in provisions from revised present value of liability	-	4,453
Reductions in provisions from payments and other sacrifices	(1,842)	(1,795)
Carrying balance at the end of year	**12,613**	**14,455**
Current liability	2,547	2,671
Non current liability	10,066	11,784
	12,613	**14,455**

(d) Provision for Land Remediation

The Crown acquired the former BHP main steel works site, Kooragang Islands waste emplacement site and another two parcels of lands in Newcastle, in June 2002. The former BHP main steel works site and Kooragang Islands waste emplacement site needed remediation works to remove various contaminations associated with steel making. The Crown negotiated, as part of land acquisition package consideration, for BHP Billiton to pay an amount to compensate for the total estimated cost of land remediation and other works.

At the time the purchase was being negotiated, the Government sought advice on the estimated remediation costs for the main steel site and the Kooragang Island waste emplacement site. In providing this assessment, a number of assumptions as to the nature of future development and the method of remediating the sites were made.

BHP Billiton Ltd agreed to pay $108.987 million, including $5 million for Heritage Interpretation Funding Proposal which was received by the Crown ‘on trust’, based on the total negotiated estimated costs of remediation and other works as shown in the Environmental Deed dated 31 July 2002 between the BHP Billiton Ltd and the Crown.

33. OTHER LIABILITIES (Cont)

The Government established a special subsidiary corporation, the Regional Management Land Corporation, which provided in June 2006, an estimate of the remaining remediation works.

On 1 February 2007, the above sites were transferred to the State Property Authority under the provisions of the State Property Authority Act 2006. The cash to fund the remediation works required, together with the above provision for the estimated cost of remediation were transferred at the same time.

	2007 $000	2006 $000
Carrying balance of Environmental remediation of steel works main site and Kooragang Islands waste emplacement site, environmental monitoring of main site over 10 years, heritage interpretation funding proposal and relocation of the railway line to OneSteel (Moorandoo Crossing) at the beginning of year	128,855	147,267
Increase in provisions from revised present value of liability	8,337	-
Reduction in provisions from payments	(10,758)	(6,348)
Reduction in provisions from revised present value of liability	-	(12,064)
Transfer of provision to State Property Authority	(121,434)	-
Carrying balance at the end of year	5,000	128,855
Less: Heritage interpretation funding proposal included in receivables	-	(5,000)
Less: Payments from heritage interpretation funding proposal	(1,700)	-
Less: Balance of heritage interpretation funding proposal transferred to State Property Authority	(3,300)	-
	-	**123,855**
Current liability	-	24,145
Non current liability	-	99,710
	-	**123,855**

(e) Provision for restoration costs

The makegood restoration liability is calculated on all leased properties, where Crown entity is the lessee and reflects an estimate of the cost to makegood the premises to their original conditional at the end of the lease term. The makegood costs are recoverable in full from the sub-lessees. A discount rate of 6.02 per cent was used and the level of the provision is reviewed at the end of each year and an adjustment made to Receivables.

Makegood restoration liability on leased properties	18,444	10,713
	18,444	**10,713**
Current liability	2,874	3,718
Non current liability	15,570	6,995
	18,444	**10,713**

33. OTHER LIABILITIES (Cont)

(f) Aboriginal Land Council Claims

The Crown Leaseholds Entity has provided for the liability of claims which have been granted to local Aboriginal Land Councils under the Aboriginal Land Rights Act 1983. While such claims have been granted, the care, control and management of the granted lands does not transfer to the relevant Local Aboriginal Land Council until the parcels have been surveyed and title issued. Prior to title being issued, the parcels of granted Crown land remain under the control of the Crown and have been brought to account as part of the land holdings.

34. SUMMARY OF COMPLIANCE WITH FINANCIAL DIRECTIVES

RECURRENT APPROPRIATIONS	**Appropriation 2007**	**Expenditure 2007**	**Appropriation 2006**	**Expenditure 2006**
ORIGINAL BUDGET APPROPRIATION/ EXPENDITURE	**$000**	**$000**	**$000**	**$000**
Appropriation Act	3,680,460	2,880,729	3,408,628	2,891,606
Budget Variation Acts (additional appropriation)			1,000,000	1,000,000
Sec 22 - Expenditure for Certain Works and Services			-	-
Treasurer's Advance	15,020	10,920	17,864	17,864
Sec 28 - Supplementation with Offsetting Savings (section 28 of the Appropriation Act)	(287,630)		(438,093)	-
Sec 16C - Insurance Protection Tax Act 2001	67,381	67,381	67,649	67,649
Total Appropriations/Expenditure (includes transfer payments)	**3,475,231**	**2,959,030**	**4,056,048**	**3,977,119**
LESS: Drawdowns from Treasury		2,987,237		4,020,429
Total Unspent Appropriations		(28,207)		(43,310)
CAPITAL APPROPRIATIONS				
Appropriation Act	164,824	127,851	632,488	417,744
Sec 22 - Expenditure for certain works and services	-	-	-	-
Treasurer's Advance	-	-	-	-
Sec 28 - Supplementation with Offsetting Savings	-	-	(80,000)	-
Total Appropriations/Expenditure (Includes Transfer Payments)	**164,824**	**127,851**	**552,488**	**417,744**
LESS: Drawdowns from Treasury		127,851		417,744
Total Unspent Appropriations		-		-

35. CONSOLIDATED FUND TRANSACTIONS

	2007 $000	2006 $000
Cash Flows from Operating Activities		
Receipts		
State Taxation, Fines and Regulatory Fees	18,180,437	16,774,711
Commonwealth Grants	17,491,172	17,970,403
Financial Distributions	1,846,074	1,470,297
Other Operating Revenue	838,955	939,897
Total Receipts	**38,356,638**	**37,155,308**
Payments		
Recurrent Appropriations Paid to Other Agencies	(34,125,462)	(32,391,869)
Recurrent Appropriations Paid to Crown Finance Entity	(2,987,237)	(4,020,429)
Capital Appropriations Paid to Other Agencies	(3,082,424)	(2,695,648)
Capital Appropriations Paid to Crown Finance Entity	(127,851)	(417,744)
Other	19,081	-
Total Payments	**(40,303,893)**	**(39,525,690)**
Net Cash Flow from Operating Activities	**(1,947,255)**	**(2,370,382)**
Cash Flow from Crown Finance Entity		
Proceeds from Borrowing Transferred	1,125,280	672,569
Investment Income Transferred	29,000	40,600
Interest Receipts Transferred	68,563	79,434
Advance Repayments Transferred	180,227	125,245
Other Receipts Transferred*	1,028,576	1,057,238
	2,431,646	**1,975,086**
Net Increase/(Decrease) in Cash	**484,391**	**(395,296)**
Opening Cash and Cash Equivalents	**(2,487,248)**	**(2,140,952)**
Cash transferred in as a result of capital restructuring	184,000	49,000
Closing Cash Balances	**(1,818,857)**	**(2,487,248)**
Cash and Cash Equivalents		
Investment in Short Term Money Market	-	1,561
Bank overdraft	(1,818,857)	(2,488,809)
	(1,818,857)	**(2,487,248)**

* In 2007 other receipts transferred includes transfer of surplus reserves from SICorp $910 million (2006: $1,000 million).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

36. PROGRAM STATEMENT – EXPENSES AND INCOME FOR THE YEAR ENDED 30 JUNE 2007

	Debt Servicing Costs $000	Refunds and Remissions of Crown Revenue $000	Other Service-wide Activities $000	Natural Disasters Relief $000	Not Attributable **	Total Crown Finance Entity $000
Revenue						
Taxation, Fines & Regulatory Fe	-	-	-	-	-	-
Commonwealth Grants	-	-	-	-	-	-
Financial Distributions	-	-	-	-	-	-
Sales of Goods and Services	-	-	-	-	-	-
Investment Income	15	-	106,715	-	-	106,730
Share of Profit of Associate	-	-	87,719	-	-	87,719
Revenue From Government	(1,125,280)	-	(1,334,574)	-	3,115,089	655,235
Other	24	-	8,247,943 *	-	-	8,247,967
Total Revenue	**(1,125,241)**	**-**	**7,107,803**	**-**	**3,115,089**	**9,097,651**
Expense						
Superannuation	-	-	(1,694,822)	-	-	(1,694,822)
Long Service Leave	-	-	384,450	-	-	384,450
Maintenance	-	-	-	-	-	-
Depreciation/Amortisation	-	-	19,083	-	-	19,083
Grant and Subsidies	-	-	1,384,878	76,712	-	1,461,590
Finance Costs	704,570	-	97,987	-	-	802,557
Insurance Claims	-	-	7,997	-	-	7,997
Recurrent Appropriations	-	-	-	-	-	-
Capital Appropriations	-	-	-	-	-	-
Other	-	71,950	273,141	-	-	345,091
Total Expenses	**704,570**	**71,950**	**472,714**	**76,712**	**-**	**1,325,946**
Loss On Disposal of Non-Current Assets	-	-	(4,305)	-	-	(4,305)
SURPLUS/(DEFICIT) FOR THE YEAR	**(1,829,811)**	**(71,950)**	**6,630,784**	**(76,712)**	**3,115,089**	**7,767,400**

* Includes $7.2 billion received from the General Government Liability Management Ministerial Corporation paid to State Super.

** Appropriations are made on an agency basis and not to individual programs. Hence, government contributions are included in the "Not Attributable" column.

36. PROGRAM STATEMENT – EXPENSES AND INCOME FOR THE YEAR ENDED 30 JUNE 2007 (Cont)

	Crown Finance Entity * $000	Consolidated Fund * $000	Electricity Tariff Equalisation* $000	NSW Self Insurance Corporation* $000	Crown Leaseholds * $000	Crown Lands Homesites Program * $000	Land Development Working Account * $000	Crown Property Portfolio * $000	Liability Management Ministerial Corporation * $000	Elimination $000	Consolidated Total $000
Revenue											
Taxation, Fines & Regulatory F	-	18,845,257	-	-	-	-	-	-	-	(55,245)	18,790,012
Commonwealth Grants	-	17,566,147	-	-	-	-	-	-	-	-	17,566,147
Financial Distributions	-	1,908,386	-	-	-	-	-	-	-	(37,601)	1,870,785
Sales of Goods and Services	-	-	-	871,443	-	-	-	151,183	-	(10,280)	1,012,346
Investment Income	106,730	-	-	555,046	2,504	-	-	7,454	270,222	(5,585)	936,371
Share of Profit of Associate	23,765	-	-	-	-	-	-	-	-	-	23,765
Revenue From Government	655,235	-	-	-	(54,798)	(391)	(9,000)	96,843	-	(687,889) -	0
Other	8,247,967	3,198,160	310,350	777	93,516	406	-	8,006	180,664	(10,772,230)	1,267,616
Total Revenue	**9,033,697**	**41,517,950**	**310,350**	**1,427,266**	**41,222**	**15**	**(9,000)**	**263,486**	**450,886**	**(11,568,830)**	**41,467,042**
Expense											
Superannuation	(1,694,822)	-	-	-	-	-	-	-	-	-	(1,694,822)
Long Service Leave	384,450	-	-	-	-	-	-	-	-	8,361	392,811
Maintenance	-	-	-	-	-	-	-	21,056	-	-	21,056
Depreciation/Amortisation	19,083	-	-	905	-	-	-	5,433	-	-	25,421
Grant and Subsidies	1,461,590	-	-	-	-	-	-	-	-	(277,508)	1,184,082
Finance Costs	802,557	-	-	273,579	-	-	-	689	4,681	(5,585)	1,075,921
Insurance Claims	7,997	-	-	252,241	-	-	-	-	-	(474)	259,764
Recurrent Appropriations	-	37,112,699	-	-	-	-	-	-	-	(2,987,237)	34,125,462
Capital Appropriations	-	3,210,275	-	-	-	-	-	-	-	(127,851)	3,082,424
Other	345,091	(0)	582,482	976,548	96,375	2,683	1,726	111,697	7,174,818	(8,149,885)	1,141,535
Total Expenses	**1,325,946**	**40,322,974**	**582,482**	**1,503,273**	**96,375**	**2,683**	**1,726**	**138,875**	**7,179,499**	**(11,540,179)**	**39,613,654**
Gain/(Loss) On Disposal Of Non-Current Assets	(4,305)	-	-	-	(97,034)	4,446	12,382	(76)	-	-	(84,587)
SURPLUS/(DEFICIT) FOR THE YEAR	**7,703,446**	**1,194,976**	**(272,132)**	**(76,007)**	**(152,187)**	**1,778**	**1,656**	**124,535**	**(6,728,613)**	**(28,651)**	**1,768,801**

- The name and purpose of each program is summarised in note 1.

37. TRANSFER PAYMENTS

The Crown Entity receives grants from the Commonwealth Government that are transferred to eligible beneficiaries. The beneficiaries are non-government schools which are paid directly by the Crown Entity and Local Governments, which are paid to the Department of Local Government.

	2007 $'000	2006 $'000
Payments		
Non-Government Schools - Recurrent	(1,744,872)	(1,650,317)
Non-Government Schools - Targeted Programs	(92,991)	(114,557)
Non-Government Schools - Capital	(57,316)	(43,191)
Local Government - Financial Assistance	(388,260)	(375,902)
Local Government - Roads	(150,340)	(144,844)
	(2,433,779)	**(2,328,811)**
Receipts		
Non-Government Schools - Recurrent	1,744,872	1,650,317
Non-Government Schools - Targeted Programs	92,991	114,557
Non-Government Schools - Capital	56,942	43,565
Local Government - Financial Assistance	388,260	375,902
Local Government - Roads	150,340	144,844
	2,433,405	**2,329,185**

38. CHANGES IN ACCOUNTING POLICIES, CORRECTIONS OF ERRORS AND CHANGES IN ESTIMATES

Crown Leaseholds Entity – Aboriginal Land Grants

Since the enactment of the *Aboriginal Land Rights Act 1983* many Aboriginal Land Claims have been granted. While such claims have been granted, the care, control and management of the granted lands does not transfer to the relevant local Aboriginal Land Council until the parcels have been surveyed and title issued. Prior to title being issued, the parcels of granted Crown land remain under the control of the Crown and have been brought to account as part of the Crown Leaseholds Entity land holdings.

During the re-valuation of the Crown Leaseholds Entity land holdings in 2007, the Department of Lands was able to establish reasonable boundaries for the unsurveyed parcels and for the first time, to determine an approximate value for granted Aboriginal Land Claim parcels. Based on the 2007 re-valuations of Crown land parcels within each local government area, the value for granted Aboriginal land claims that were still under the control of the Crown was calculated at $1.042 billion.

In order to bring the item to account for the first time and having regard to advice from the Urgent Issues Group and the application of AASB 108 the item has been treated as a correction of a prior period error. This has resulted in a need to reduce the opening equity balance for 1 July 2005 by $989.1 million. This reflects the value of the provision required to record land controlled by the Crown but already granted to Aboriginal Land Councils at this time.

During 2005-06, Crown land valued at $28.3 million was granted as Aboriginal Land Claims. This adjustment has been reflected as a re-statement of the expenses incurred during that year as reflected in note 4(a).

38. CHANGES IN ACCOUNTING POLICIES, CORRECTIONS OF ERRORS AND CHANGES IN ESTIMATES (Cont)

Similarly, during 2006-07, Crown land valued at $24.8 million was granted. This has been reflected as an expense incurred during the 2006-07 financial year as reflected in note 4(a).

Joint Government Enterprise Limited (JGE) – Water for Rivers

JGE was established as a joint enterprise by the Commonwealth Government, the Victorian Government and the New South Wales Government ("the Members") in year 2003. The principal activities of the company are to fund water saving initiatives and purchase water entitlements in sufficient volumes to provide increased flows into the Snowy River, Snowy Mountain River and Murray River systems. To ensure that the JGE neither makes a taxable profit or loss, contribution paid by the parties are placed into a "Funding Account". JGE is only reimbursed from the funding account for expenditure incurred.

In previous years annual contribution of $15 million paid by Crown was recognised as an expense in 'Grants and Subsidies' expense line item in the Operating Statement each year. Since the bank account is legally held in the name of, and on behalf of, the Members, the money in the funding account remains jointly controlled by the Members until such time as an expense reimbursement claim is received from JGE. Therefore, so as to reflect NSW's cumulative share in JGE Funding account, $41.5 million has been recognised as cash balance with a corresponding adjustment to opening retained earnings balance as at 1 July 2005.

The 30 June 2006 comparative Operating Statement and Balance Sheet has been restated to reflect a reduction in 'Grants and Subsidies' expense by $13.8 million and Investment income by $ 2.7 million with a corresponding increase in cash balance.

Accordingly, closing retained earnings for 30 June 2006 has been increased by $58 million as a result of the above restatements.

39. EVENTS AFTER THE BALANCE SHEET DATE

On 1 July 2007, all the properties contained in the Crown Property Portfolio were vested to the State Property Authority under the provisions of the State Property Authority Act 2006. In addition all assets and liabilities were transferred to the Authority at the same time. The Crown Property Portfolio will cease to report on its finances separately and its accounts will be consolidated with those of the State Property Authority.

As the balance of the assets of the Liability Management Ministerial Corporation have been transferred to State Super, no further transactions are considered likely in the short term. The Corporation is to remain in place to assist in the future management of the State's assets and liabilities.

End of Audited Financial Information

New South Wales
TREASURY

Liability Management Ministerial Corporation

Financial Report
for the year ended
30 June 2007

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Liability Management Ministerial Corporation, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Liability Management Ministerial Corporation as of 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

The Secretary of Treasury's Responsibility for the Financial Report

The Secretary of Treasury is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Secretary, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Corporation,
- that the Corporation has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Independence

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

J. D. Viljoen

John Viljoen
Acting Assistant Auditor-General

8 October 2007
SYDNEY

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2007

Pursuant to Section 41C of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

(a) The accompanying financial report exhibits a true and fair view of the financial position of the Liability Management Ministerial Corporation as at 30 June 2007 and the transactions for the year then ended; and

(b) The financial report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005*, the Treasurer's Directions and Australian Accounting Standards.

I am not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.

Ian Neale
Acting Secretary
3 October 2007

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

INCOME STATEMENT
for the year ended 30 June 2007

	Note	2007 $000	2006 $000
Operating Revenue			
Contributions from the Crown Finance Entity		180,651	2,420,430
Investment Income	3	270,222	258,942
Other Receipts		13	7
Total Revenue		**450,886**	**2,679,379**
Expenses			
Management Fee		4,681	4,854
Audit Fee		6	8
Payment to the Crown Finance Entity		7,174,812	-
Total Expenses		**7,179,499**	**4,862**
(DEFICIT)/SURPLUS FOR THE YEAR		**(6,728,613)**	**2,674,517**

The accompanying notes form part of these financial statements.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

STATEMENTS OF RECOGNISED INCOME & EXPENSES
for the year ended 30 June 2007

	Note	2007 $000	2006 $000
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		**-**	**-**
(Deficit)/Surplus for the Year		(6,728,613)	2,674,517
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	7	**(6,728,613)**	**2,674,517**
EFFECT OF CHANGES IN ACCOUNTING POLICY AND CORRECTION OF ERRORS			
Accumulated Funds	7	-	(701)
		-	**(701)**

The accompanying notes form part of these financial statements.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

BALANCE SHEET
as at 30 June 2007

	Note	2007 $000	2006 $000
ASSETS			
Current Assets			
Cash and Cash Equivalents	4	-	5,736
Financial Assets at Fair Value	5	-	1,500,000
Derivative Financial Instruments	11	-	1,642
Total Current Assets		**-**	**1,507,378**
Non-Current Assets			
Financial Assets at Fair Value	5	-	5,221,684
Total Non-Current Assets		**-**	**5,221,684**
Total Assets		**-**	**6,729,062**
LIABILITIES			
Current Liabilities			
Payables	6	-	449
Total Current Liabilities		**-**	**449**
Total Liabilities		**-**	**449**
Net Assets		**-**	**6,728,613**
Equity			
Retained Surplus		-	6,728,613
Total Equity	7	**-**	**6,728,613**

The accompanying notes form part of these financial statements.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

CASH FLOW STATEMENT
for the year ended 30 June 2007

	Note	2007 $000	2006 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Payment to the Crown Finance Entity		7,174,812	-
Management Fee		5,123	4,759
Audit Fees		13	7
Total Payments		**7,179,948**	**4,766**
Receipts			
Contributions from the Crown Finance Entity		180,651	2,420,430
Investment Income		270,222	313,131
Other Receipts		13	7
Total Receipts		**450,886**	**2,733,568**
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	**9**	**(6,729,062)**	**2,728,802**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for Purchase of Investments		(892,364)	(2,729,251)
Proceeds from Sale of Investments		7,615,690	4,759
NET CASH FROM/(USED IN) INVESTING ACTIVITIES		**6,723,326**	**(2,724,492)**
Net (Decrease)/Increase in Cash and Cash Equivalents		**(5,736)**	**4,310**
Cash and Cash Equivalents at Beginning of Year		5,736	1,426
Cash and Cash Equivalents at end of Year	4	**-**	**5,736**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

1. INFORMATION

The Liability Management Ministerial Corporation (LMMC) was established to manage the General Government Liability Management Fund (GGLMF). The Fund invests accumulated Crown funds pending the payment of Crown employer contributions to the SAS Trustee Corporation (State Super). These accounts are aggregated into those of the Crown Entity.

LMMC is a statutory body under the *Public Finance and Audit Act 1983*. It is a not-for-profit entity that largely invests payments it receives from the Crown Finance Entity to reduce the net liabilities of the State. The liabilities it pays are firstly superannuation, then borrowings. Its main business address is 1 Farrer Place, Sydney NSW 2000.

The NSW Government has a fiscal target to fully fund superannuation liabilities by 2030. In accordance with this funding target the balance of the General Government Liability Management Fund was transferred to the SAS Trustee Corporation via the Crown Finance Entity during 2006-07.

The LMMC will remain in existence to assist in the future management of the State's assets and liabilities.

This financial report was authorised for issue by the Secretary on the date the accompanying statement was signed by the Secretary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

This financial report is a general purpose financial report which has been prepared on an accruals basis and in accordance with:
- Australian Accounting standards, including Australian equivalents to International Financial Reporting Standards (AEIFRS)
- all requirements of the *Public Finance and Audit Act 1983*
- the *Public Finance and Audit Regulations 2005*
- Treasury Accounting Policy Statements.

The financial statements have been prepared on a historical cost basis, except for:
- Derivative financial instruments which are measured at fair value
- Financial assets designated as fair value through profit and loss.

All amounts are rounded to the nearest $1,000 Australian dollars ($'000).

Use of Estimates and Judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions about the carrying amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

Major assumptions and judgements by management are detailed in the relevant notes to this financial report.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

Statement of Compliance

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2007. These are listed as follows:

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replacing the presentation requirements of financial instruments in AASB 132 *Financial Instruments: Presentation*. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 101 *Presentation of Financial Statements* (October 2006) makes amendments to align more closely with International Financial Reporting Standards (IFRS) requirements. AASB 101 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2007-4 Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments (April 2007). AASB 101 is applicable for annual reporting periods beginning on or after 1 July 2007.
- AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* (June 2007). AASB 2007-6 is applicable for annual reporting periods beginning on or after 1 January 2009.
- AASB Interpretation 4 *Determining whether and Arrangement contains a Lease* (February 2007). AASB Interpretation 4 is applicable for annual reporting periods beginning on or after 1 January 2008.
- AASB Interpretation 10 *Interim Financial Reporting and Impairment* (September 2006). AASB Interpretation 10 is applicable for annual reporting periods beginning on or after 1 November 2006.

LMMC will adopt these in the 2008 financial year.

Other standards, amendments and Interpretations which are available for early adoption but are not applicable to LMMC are not listed here.

The initial application of AASB 7, AASB 2005-10, AASB 101 and AASB 2007-4 are not expected to have an impact on the financial results of LMMC and are not being early adopted.

REVENUE

Revenue is recognised as probable economic benefits to LMMC that can be reliably measured. The following criteria are used to identify revenue:

Contribution from the Crown Finance Entity

Contributions received from the Crown Finance Entity are recognised as income when LMMC obtains control of the contribution or the right to receive the contribution, it is probable that economic benefits will flow to the entity and the amount of the contribution can be measured reliably.

Investment Income

Investment income includes interest income and net gains or losses from changes in the fair value of investments.

Interest revenue is recognised as interest accrues.

EXPENSES

Management Fee

Management fees are recognised as an expense in the period in which they are incurred.

Employee Entitlements

Because LMMC has no employees, there are no employee entitlements. NSW Treasury staff manages the workload and this work is not charged for, or measured.

Goods and Services Tax

The amount of goods and services tax (GST) incurred cannot be recovered from the Australian Taxation Office and is recognised as part of an expense or asset.

Contingencies and liabilities are inclusive of GST.

ASSETS

Cash and Cash Equivalents

Cash and cash equivalents in the Balance Sheet comprise:
- cash at bank
- cash in hand
- restricted cash in the balances of special deposit accounts
- other short term deposits with an original maturity of three months or less.

The Cash Flow Statement shows these cash and cash equivalents, net of outstanding bank overdrafts.

Investments

Financial assets in the scope of AASB 139 “Financial Instrument: Recognition and Measurement” are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. LMMC classifies its financial assets after initial recognition and, when allowed and appropriate, it re-evaluates this at each year end.

The NSW Treasury Corporation (TCorp) manages LMMC’s investments.

Financial Assets at Fair Value

The fund invests in bonds and TCorp HourGlass facility. All bond investments with a term of maturity of up to 12 months must have at least an A1+ short term issuer credit rating from Standard & Poor’s or an equivalent recognised rating.

All long-term securities in the portfolio must have an AA – or better long-term issuer credit rating from Standard & Poor’s or an equivalent recognised rating.

These financial assets are designated at fair value through profit and loss as they are managed and their performance is evaluated on a fair value basis. Gains or losses are recognised in the income statement.

Derivative Financial Instruments

LMMC uses derivatives such as interest rate swaps to reduce the risks of interest rate fluctuations. These instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains of losses arising from changes in the fair value of derivatives are taken directly to the income statement.

Fair value of interest rate contracts are calculated by reference to the market value for similar contracts.

PAYABLES

Payables are carried at amortised costs and represent liabilities for goods and services provided but not paid for by the year’s end. This occurs when LMMC must make future payments for the goods and services, even if it has not been billed for them.

TAXATION

The activities of the LMMC are exempt from income tax as granted by the Australian Taxation Office.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

3. REVENUE

	2007 $000	2006 $000
Investment Income		
Interest on TCorp Investments	287,222	250,463
Income on Hour-Glass Investments	(17,000)	8,479
	270,222	**258,942**

4. CASH AND CASH EQUIVALENTS

	2007 $000	2006 $000
Short Term Money Market Investment at TCorp	-	5,736
	-	**5,736**

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value.

Short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of LMMC, and earn interest at the respective short-term deposit rates.

5. FINANCIAL ASSETS AT FAIR VALUE

Financial Assets Designated at Fair Value

	2007 $000	2006 $000
Current		
Hour-Glass Portfolio	-	458,479
Bond Portfolio	-	1,041,521
	-	**1,500,000**
Non Current		
Bond Portfolio	-	5,221,684
	-	**5,221,684**
Total financial assets designated at fair value	**-**	**6,721,684**

6. PAYABLES

	2007 $000	2006 $000
Audit Fees	-	7
Management Fees	-	442
	-	**449**

Payables are non-interest bearing and are generally on 30 day terms.

7. RETAINED SURPLUS

	2007 $000	2006 $000
Balance at the Beginning of the Financial Year	6,728,613	4,054,797
AASB 139 First-Time Adoption		
Other Changes in Accounting Policy	-	(701)
Restated Opening Balance	**6,728,613**	**4,054,096**
Changes in Equity – Other than Transactions with Owners as Owners		
(Deficit)/Surplus for the Year	(6,728,613)	2,674,517
Balance at the End of the Financial Year	**-**	**6,728,613**

8. CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets or contingent liabilities as at 30 June 2007.

9. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO THE OPERATING RESULT

(Deficit)/Surplus for the Year	(6,728,613)	2,674,517
Change in Operating Assets and Liabilities		
(Decrease)/Increase in Payables	(449)	96
Decrease in Receivables	-	54,189
Cash Flows (used in)/from Operating Activities	**(6,729,062)**	**2,728,802**

10. FINANCIAL INSTRUMENTS

Risk Management

During 2006-07 LMMC's principal financial instruments comprised of cash and cash equivalents, Bond and Hour-Glass portfolios designated as fair value through profit and loss and derivatives.

The main purpose of these financial instruments was to derive income and investment gains. LMMC had other liabilities such as payables.

LMMC appointed NSW Treasury Corporation (TCorp), the State's central financing authority who has recognised expertise in the management of Treasury related risks, to advise on, and actively manage its asset portfolio. TCorp managed investment risk in line with the Risk and Compliance Framework and the Memorandum of Understanding between LMMC and TCorp. These are summarised as follows:

(a) Interest Rate Risk
Interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in market interest rates. LMMC's exposure to interest rate risks and the effective interest rates of financial assets and liabilities at the Balance Sheet date are:

Financial Year Ended 30 June 2007

	Variable interest rate	Fixed interest rate maturing in:						Non Interest Bearing	Total	Weighted average effective interest rate
		Less than 1 year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	5+ Years			
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%
(i) Financial Assets										
Cash and Cash Equivalents	–	–	–	–	–	–	–	–	–	–
Investments										
Bond Portfolio	–	–	–	–	–	–	–	–	–	–
Hour-Glass	–	–	–	–	–	–	–	–	–	–
Derivatives	–	–	–	–	–	–	–	–	–	–
Total Financial Assets	–	–	–	–	–	–	–	–	–	–
(ii) Financial Liabilities										
Derivatives	–	–	–	–	–	–	–	–	–	–
Payables	–	–	–	–	–	–	–	–	–	–
Total Financial Liabilities	–	–	–	–	–	–	–	–	–	–

Financial Year Ended 30 June 2006

	Variable interest rate	Fixed interest rate maturing in:						Non Interest Bearing	Total	Weighted average effective interest rate
		Less than 1 year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	5+ Years			
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%
(i) Financial Assets										
Cash and Cash Equivalents	5,736	–	–	–	–	–	–	–	5,736	5.75
Investments										
Bond Portfolio	–	1,041,521	5,221,684	–	–	–	–	–	6,263,205	5.99
Hour-Glass	458,479	–	–	–	–	–	–	–	458,479	1.88
Derivatives	–	1,642	–	–	–	–	–	–	1,642	6.10
Total Financial Assets	**464,215**	**1,043,163**	**5,221,684**	**–**	–	–	–	–	**6,729,062**	
(ii) Financial Liabilities										
Payables	–	–	–	–	–	–	–	449	449	–
Total Financial Liabilities	**–**	–	**–**	**–**	–	–	–	**449**	**449**	

(b) Credit Risk

Credit risk is the risk of financial loss because another party to a contract or a financial position does not meet a financial obligation. LMMC's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Balance Sheet. All investments within the LMMC must have the following Standard & Poor's credit ratings (or equivalent):

- Investments with a term to maturity of up to 12 months – A1+ or better
- All long-term securities – AA- of better
- Average long term rating of securities with a maturity of more than 12 months – at least AA at all times

(c) Fair Value

All financial instruments are measured at fair value unless otherwise stated.

The fair value of other financial assets and liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

The fair value of the interest rate swaps contract and the interest rate futures contract, quoted by TCorp for realising or settling contracts, was determined at 30 June 2006.

(d) Derivative Financial Instruments

TCorp has been appointed to manage the LMMC's investments. It is authorised to invest assets of the portfolio in derivative instruments as long as the portfolio is not geared, and this does not create a net short position for the portfolio.

TCorp may use these derivatives:

- exchange traded interest rate futures contracts
- exchange traded interest rate options
- over the counter options on Commonwealth and TCorp bonds
- swaps.

11. DERIVATIVES

	2007 $000	2006 $000
Current Assets		
Foreign Exchange Contract	-	1,642
	-	**1,642**

Derivative financial instruments are used by LMMC in the normal course of business to naturally hedge exposure to foreign exchange contacts.

The nominal principal amounts and period of expiry of the foreign exchange contract are as follows:

	2007 $000	2006 $000
Less than one year	-	1,642
		1,642

Derivative financial instruments (both assets and liabilities) that were previously reported on a gross basis were reclassified and reported on a net balance for transactions which are with the same counter-party. Derivative assets reduced by $98.5 million and derivative liabilities reduced by the same amount.

12. EVENTS AFTER THE BALANCE SHEET DATE

As the balance of the fund has been transferred to State Super, via the Crown Finance Entity, no further transactions are considered likely in the short term. The LMMC is to remain in place to assist in the future management of the State's assets and liabilities.

End of Audited Financial Information

New South Wales
TREASURY

Electricity Tariff Equalisation Ministerial Corporation

Financial Report
for the year ended
30 June 2007

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Electricity Tariff Equalisation Ministerial Corporation, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Electricity Tariff Equalisation Ministerial Corporation as of 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

The Fund Administrator's Responsibility for the Financial Report

The Fund Administrator is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Fund Administrator, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Corporation,
- that the Corporation has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Independence

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

J. D. Viljoen

John Viljoen
Acting Assistant Auditor-General

8 October 2007
SYDNEY

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2007

Pursuant to Section 41C of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

(a) The accompanying financial statements exhibit a true and fair view of the financial position of the Electricity Tariff Equalisation Ministerial Corporation for the year ended 30 June 2007 and the transactions for the year then ended; and

(b) The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005*, the Treasurer's Direction and Australian Accounting Standards.

Further I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Philip Mussared
Acting Fund Administrator
5 October 2007

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

INCOME STATEMENT
for the year ended 30 June 2007

	Note	2007 $000	2006 $000
Revenue			
Tariffs from Retailers/Generators		289,926	361,344
Investment Income		20,424	12,870
Total Revenue		**310,350**	**374,214**
Expenses			
Tariffs to Retailers/Generators		582,198	311,118
Other	3	285	218
Total Expenses		**582,483**	**311,336**
(DEFICIT)/SURPLUS FOR THE YEAR		**(272,133)**	**62,878**

The accompanying notes form part of these financial statements.

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

STATEMENTS OF RECOGNISED INCOME & EXPENSES
for the year ended 30 June 2007

	Note	2007 $000	2006 $000
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		–	–
(Deficit)/Surplus for the year		(272,133)	62,878
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	7	**(272,133)**	**62,878**

The accompanying notes form part of these financial statements.

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

BALANCE SHEET
as at 30 June 2007

	Note	2007 $000	2006 $000
ASSETS			
Current Assets			
Cash & Cash Equivalents	4	313,037	247,728
Receivables	5	120,990	23,924
Total Current Assets		**434,027**	**271,652**
Total Assets		**434,027**	**271,652**
LIABILITIES			
Current Liabilities			
Payables	6	434,849	341
Total Current Liabilities		**434,849**	**341**
Total Liabilities		**434,849**	**341**
Net Assets		**(822)**	**271,311**
Equity			
Retained (Deficit)/Surplus	7	(822)	271,311
Total Equity		**(822)**	**271,311**

The accompanying notes form part of these financial statements.

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

CASH FLOW STATEMENT
for the year ended 30 June 2007

	Note	2007 $000	2006 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Payments to Retailers/Generators		147,701	312,554
Management Fee		281	197
Consultant Costs		-	10
Other		21	34
Total Payments		**148,003**	**312,795**
Receipts			
Payments from Retailers/Generators		192,860	371,116
Interest Received		20,424	12,870
GST Recouped		28	20
Total Receipts		**213,312**	**384,006**
NET CASH FROM OPERATING ACTIVITIES	10	**65,309**	**71,211**
NET INCREASE IN CASH		**65,309**	**71,211**
Opening Cash and Cash Equivalents		247,728	176,517
CLOSING CASH AND CASH EQUIVALENTS		**313,037**	**247,728**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

1. INFORMATION

The Electricity Tariff Equalisation Ministerial Corporation (ETEMC) was established under section 43EM of the *Electricity Supply Act 1995* (the Act) and administers the Electricity Tariff Equalisation Fund (ETEF). The Fund manages the purchase-cost risks for electricity retail suppliers of small retail customers in New South Wales.

The Act sets outs rules for payment to and from the ETEF. The Fund pays and collects tariffs from retailers and/or generators based on usage figures from the retailers and/or generators.

ETEMC is statutory body under the *Public Finance and Audit Act 1983*. Its main business address is 1 Farrer Place, Sydney NSW 2000.

The NSW Government will gradually phase out the Fund and wind it up in June 2010.

This financial report was authorised for issue by the Fund Administrator the date of accompanying statement by the Fund Administrator was signed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

This financial report is a general purpose financial report which has been prepared on an accruals basis and in accordance Australian Accounting Standards, including:

- Australian equivalents to International Financial Reporting Standards (AEIFRS)
- all requirements of the *Public Finance and Audit Act 1983*
- the Public Finance and Audit Regulation 2005
- Treasury Accounting Policy Statements.

The financial statements have been prepared on a historical cost basis.
.
All amounts are rounded to the nearest $1,000 Australian dollars ($'000).

Use of Estimates and Judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions about the carrying amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

In particular, management have made the following judgements in applying ETEMC's accounting policies:

Amounts recognised as income and expenditure from/to retailers and generators consists of both final and revision settlements. Under the ETEF payment rules, final settlements are completed 20 business days after the conclusion of the trading week. Revisions are conducted 20-30 weeks after the trading week. Due to the lag time between trading and settlement, an estimate is made of the receivable or payable based on the tariff settlements.

Statement of Compliance

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2007. These are listed as follows:

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replacing the presentation requirements of financial instruments in AASB 132 *Financial Instruments: Presentation*. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 101 *Presentation of Financial Statements* (October 2006) makes amendments to align more closely with International Financial Reporting Standards (IFRS) requirements. AASB 101 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2007-4 Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments (April 2007). AASB 101 is applicable for annual reporting periods beginning on or after 1 July 2007.
- AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* (June 2007). AASB 2007-6 is applicable for annual reporting periods beginning on or after 1 January 2009.
- AASB Interpretation 4 *Determining whether and Arrangement contains a Lease* (February 2007). AASB Interpretation 4 is applicable for annual reporting periods beginning on or after 1 January 2008.
- AASB Interpretation 10 *Interim Financial Reporting and Impairment* (September 2006). AASB Interpretation 10 is applicable for annual reporting periods beginning on or after 1 November 2006.

ETEMC will adopt these in the 2008 financial year.

Other standards, amendments and Interpretations which are available for early adoption but is not applicable to ETEMC are not listed here.

The initial application of AASB 7, AASB 2005-10, AASB 101 and AASB 2007-4 are not expected to have an impact on the financial results of ETEMC and are not being early adopted.

REVENUE

Revenue is recognised as probable economic benefits to ETEMC that can be reliably measured. The following criteria are used to identify revenue:

Tariff Received from Retailers/Generators

Tariff received from retailers/generators is recognised in accordance with the ETEF payment rules when the right to receive the tariff is established.

Investment Income

Investment income includes interest income and net gains or losses from changes in the fair value of investments.

Interest income is recognised as interest accrues.

EXPENSES

Tariff Payments to Retailers/Generators

Tariff payments to retailers and generators are recognised in accordance with the ETEF payment rules when the right to pay the tariff has been established.

Employee Entitlements

Because ETEMC has no employees, there are no employee entitlements. NSW Treasury staff manages the workload and this work is not charged for, or measured.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:
- for when the GST cannot be recovered from the Australian Taxation Office, then it is either part of the cost of acquiring an asset, or part of an item expense
- for receivables and payables which are recognised as including GST.
- for the cash flow statement where they are recognised as part of payments and receipts.

The net GST recoverable or payable is included as part of receivables or payables.

The Commonwealth has determined that no GST is payable or receivable on tariffs between ETEF and electricity businesses (4th Division 81 Commonwealth GST Determination).

For the Cash Flow Statement GST is recognised as part of revenues, expenses and assets.

ASSETS

Cash and Cash Equivalents

Cash and cash equivalents comprise short term deposits with an original maturity of three months or less.

The Cash Flow Statement shows these cash and cash equivalents.

Receivables

Receivables are recognised and carried at the original levied amount less an allowance for any impairment.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

Payables

Trade and other payables are carried at amortised costs and represent liabilities for goods and services provided but not paid for by the year's end. This occurs when ETEMC must make future payments for the goods and services, even if it has not been billed for them.

Payables are recorded at amortised cost and other financial liabilities are carried at net fair value.

Taxation

The activities of the ETEMC are exempt from income tax as granted by the Australian Taxation Office.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

	2007 $000	2006 $000
3. EXPENSES		
Other		
Audit Fees	24	25
Consultants Costs	-	9
Management Fee	261	184
	285	**218**

4. CASH AND CASH EQUIVALENTS

Short Term Deposits	313,037	247,728

Short term deposits are made for varying periods. The modified duration of the portfolio is limited to no more than 3 months and depends on the immediate cash requirement of ETEMC.

5. RECEIVABLES

Payments from Retailers/Generators	120,984	23,918
GST Receivable	6	6
	120,990	**23,924**

The payments from retailers/generators represent tariffs receivable from retailers/generators during the financial year and the settlements occur after the year end according to the National Electricity Market Management Company (NEMMCO) settlement timetable. The payments from retailers/generators are non-interest bearing.

An allowance of impairment loss is recognised when there is objective evidence that the receivable is impaired. All receivables were tested for impairment at 30 June 07. No indication of impairment was found and no allowance for impairment loss has been made in the Income Statement for 2007. (2006 $Nil).

6. PAYABLES

Payments to Retailers/Generators	434,800	304
Audit Fees	26	21
Management Fee	23	16
	434,849	**341**

The payments to retailers/generators represent tariffs payable to retailers/generators during the financial year and the settlements occur after the year end according to the NEMMCO settlement timetable. The payments to retailers/generators are non-interest bearing.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

	2007 $000	2006 $000
7. RETAINED SURPLUS		
Balance at the beginning of the financial year	271,311	208,433
	271,311	208,433
Changes in equity – other than transactions with owners as owners		
(Deficit)/Surplus for the year	(272,133)	62,878
Balance at the end of the financial year	**(822)**	**271,311**

8. CONTINGENT LIABILITIES

At 30 June 2007 ETEMC showed a receivable from generators of $121 million. This amount was received on 27 July 2007.

Under the ETEF payment rules, the Fund is required to repay this to the generators when funds are available.

9. CONTINGENT ASSETS

There are no contingent assets.

10. RECONCILIATION OF OPERATING RESULT TO CASH FLOWS FROM OPERATING ACTIVITIES

	2007 $000	2006 $000
(Deficit)/Surplus For the Year	(272,133)	62,878
Change in Assets and Liabilities		
(Increase)/Decrease in Receivables	(97,066)	9,771
Increase in GST Receivable	-	(2)
Increase /(Decrease) in Payables	434,508	(1,436)
Net Cash From Operating Activities	**65,309**	**71,211**

11. FINANCIAL INSTRUMENTS

Risk Management

ETEMC's principal financial instruments comprise of cash and cash equivalents.

The main purpose of these financial instruments is to maintain sufficient funds to fund operations. ETEMC has various other financial assets and liabilities such as payables and receivables from/to retailers.

ETEMC has appointed NSW Treasury Corporation (TCorp), the State's central financing authority who has recognised expertise in the management of Treasury related risks, to advise on, and actively manage its asset portfolio. TCorp manages investment risk in line with the Risk and Compliance Framework. These are summarised as follows:

(a) Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in market interest rates. ETEMC's exposure to interest rate risks and the effective interest rates of financial assets and liabilities at the Balance Sheet date are:

Year Ended 30 June 2007

Financial Instruments	Floating interest rate	Fixed interest rate maturing in:						Non-interest bearing	Total	Weighted average effective interest rate
		1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years			
	$000	$000	$000	$000	$000	$000	$000	$000	$000	%
Financial Assets										
Cash and cash equivalents	313,037	-	-	-	-	-	-	-	313,037	6.39
Receivables	-	-	-	-	-	-	-	120,990	120,990	
Total Financial Assets	**313,037**	**-**	**-**	**-**	**-**	**-**	**-**	**120,990**	**434,027**	
Financial Liabilities										
Payables	-	-	-	-	-	-	-	434,849	434,849	
Total Financial Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**434,849**	**434,849**	

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

Year Ended 30 June 2006

Financial Instruments	Floating interest rate	Fixed interest rate maturing in:						Non-interest bearing	Total	Weighted average effective interest rate
		1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years			
	$000	$000	$000	$000	$000	$000	$000	$000	$000	%
Financial Assets										
Cash and cash equivalents	247,728	-	-	-	-	-	-	-	247,728	5.85
Receivables	-	-	-	-	-	-	-	23,924	23,924	-
Total Financial Assets	**247,728**	**-**	**-**	**-**	**-**	**-**	**-**	**23,924**	**271,652**	
Financial Liabilities										
Payables	-	-	-	-	-	-	-	341	341	-
Total Financial Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**341**	**341**	

(b) Credit Risk

Credit risk is the risk of financial loss because another party to a contract or a financial position does not meet a financial obligation. ETEMC's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Balance Sheet.

(c) Fair Value

All financial instruments are carried at fair value, unless otherwise stated. The fair value of ETEMC's non-interest bearing monetary financial assets and financial liabilities approximates their carrying value.

12. EVENTS AFTER THE BALANCE SHEET DATE

There are no events subsequent to reporting date requiring disclosure.

End of Audited Financial Information

New South Wales
TREASURY

Crown Property Portfolio

Financial Report
for the year ended
30 June 2007

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Crown Property Portfolio

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Crown Property Portfolio (the Portfolio) which comprises the balance sheet as at 30 June 2007, and the income statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Portfolio as of 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

Secretary's Responsibility for the Financial Report

The Secretary of the New South Wales Treasury is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Secretary, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Portfolio
- that they have carried out their activities effectively, efficiently and economically, or
- about the effectiveness of their internal controls.

Independence

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

M Abood

M P Abood CPA,
Director, Financial Audit Services

24 October 2007
SYDNEY

CROWN PROPERTY PORTFOLIO

Pursuant to Section 41C of the *Public Finance and Audit Act* 1983, I declare that in my opinion:

a) the accompanying financial report exhibits a true and fair view of the financial position of the Crown Property Portfolios at 30 June 2007 and the financial performance for the year then ended; and

b) the financial report has been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2005, Treasurer's Directions and Australian Accounting Standards.

I am not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.

John Pierce
Secretary
19 October 2007

CROWN PROPERTY PORTFOLIO
Income Statement
for the year ended 30 June 2007

	Notes	12 months ended 30 June 2007 $'000	12 months ended 30 June 2006 $'000
Expenses			
Depreciation	11 (d)	4,897	3,196
Amortisation	11 (d)	2,093	4,495
Head lease expenses	5	97,651	98,013
Property expenses	1 (t)	13,667	11,448
Refurbishment expenses		1,760	5,261
Management Fee		7,845	7,681
Provision for doubtful debts	10	(148)	265
Other		664	1,012
Borrowing costs	16 (c)	4,398	23,715
Land Remediation	8 (b) (ii)	8,337	(12,065)
Investment property fair value decrement	11 (e)	-	32,318
Total expenses excluding losses		141,164	175,339
Less:			
Revenue			
Property rental income	2 (a)	151,183	155,778
Interest income	3	4,281	6,551
Contribution from the Crown Entity	4	96,843	151,053
Emerging asset increment	1 (s) & 18	1,115	1,033
Total Revenue		253,422	314,415
Gain / (Loss) on disposal		(76)	477
Profit / (Loss) for the year		112,182	139,553

The accompanying notes form part of these financial statements.

CROWN PROPERTY PORTFOLIO
Balance Sheet
as at 30 June 2007

	Notes	30 June 2007 $'000	30 June 2006 $'000
ASSETS			
Current Assets			
Cash and other cash equivalents	9 (a)	20,386	148,593
Receivables	10	9,956	12,657
Non-current assets held for sale	11	23,750	24,290
Total Current Assets		54,092	185,540
Non-Current Assets			
Property, plant and equipment	11	696,913	683,320
Investment properties	11	15,718	15,718
Receivables	10	15,570	10,850
Total Non-Current Assets		728,201	709,888
Total Assets		782,293	895,428
LIABILITIES			
Current liabilities			
Payables	13	9,072	21,077
Finance Lease liabilities	16 (c)	1,733	1,605
Provisions			
-Sub-lease income shortfall	8 (a)	-	467
-Land remediation and other costs	8 (b)	2,874	27,863
Other			
-Rent received in advance		2,617	3,081
-Deferred income	14	3,172	3,673
Total Current Liabilities		19,468	57,766
Non-Current Liabilities			
Finance Lease liabilities	16 (c)	55,883	57,616
Provisions			
-Land remediation and other costs	8 (b)	15,570	110,559
Other			
-Deferred income	14	172,164	166,920
Total Non-Current Liabilities		243,617	335,095
Total Liabilities		263,085	392,861
Net Assets		**519,208**	**502,567**
EQUITY			
Asset revaluation reserve	15	249,298	259,299
Accumulated funds	15	255,160	228,478
Amounts recognised in equity relating to assets held for sale	15	14,750	14,790
Total Equity		**519,208**	**502,567**

The accompanying notes form part of these financial statements.

CROWN PROPERTY PORTFOLIO
Cash Flow Statement
for the year ended 30 June 2007

	Notes	12 months ended 30 June 2007 $'000	12 months ended 30 June 2006 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Head lease expenses		(95,180)	(105,342)
Property and refurbishment expenses		(14,640)	(17,946)
Finance leases reduction	16 (c)	(4,398)	(20,444)
Goods and services tax paid		(22,905)	(38,039)
Management Fee		(7,548)	(7,611)
Land Remediation		(9,241)	(1,428)
Total Payments		(153,912)	(190,810)
Receipts			
Property rental income		149,384	157,454
Goods and services tax received		22,788	36,860
Interest Income		3,463	6,636
Total Receipts		175,635	200,950
Cash Flows From Government			
Contribution from the Crown Entity	4	96,843	151,053
Asset sale proceeds transferred to the Crown Entity	13 & 15	(329)	(2,587)
Contribution to the Crown Entity	15	(28,335)	(70,039)
Refund of capital works funding to the Crown Entity	13	(2,563)	-
Net Cash Flows From Government		65,616	78,427
NET CASH FLOWS FROM OPERATING ACTIVITIES	9 (b)	87,339	88,567
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	11 (d)	(95,083)	(136,212)
Proceeds from disposal of property	15	325	61,763
Property disposal costs	15	(11)	(735)
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		(94,769)	(75,184)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		(7,430)	13,383
Opening cash and cash equivalents	9 (a)	148,593	135,210
Cash transferred out as a result of administrative restructure	9 (a)	(120,777)	-
CLOSING CASH AND CASH EQUIVALENTS	**9 (a)**	**20,386**	**148,593**

The accompanying notes form part of these financial statements.

CROWN PROPERTY PORTFOLIO
Statement of Recognised Income and Expense
for the year ended 30 June 2007

	Notes	12 months ended 30 June 2007 $'000	12 months ended 30 June 2006 $'000
Gain on revaluation of properties	15	61,934	33,172
Total Income and Expense Recognised Directly in Equity		61,934	33,172
Surplus / (Deficit) for the year	15	112,182	139,553
Total Income and Expense Recognised for the Year	15	174,116	172,725
Effect of Changes in Accounting Policy and Correction of Errors	19	-	-

The accompanying notes form part of these financial statements.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

STATEMENT OF PRINCIPAL ACTIVITIES

The Crown Property Portfolio (CPP), a not for profit non-budget dependent entity, comprises 6 property portfolios. The main activity of Portfolios 1-4 is the collection of rent and management of multi-occupancy buildings owned or leased by the New South Wales Government. Portfolios 5 and 6 generate a rental income stream from a number of diverse properties, including properties held for disposal, strategic properties and other properties received by the Portfolio that are surplus to Government requirements. The State Property Authority, 2-24 Rawson Place, Mckell Building, Sydney manages these properties on an agency basis under a Management Agreement between the Authority and the NSW Treasury.

The CPP is consolidated as part of the Crown Entity and the NSW Total State Sector Accounts.

On 1 February 2007, CPP properties managed by Regional Land Management Corporation, were transferred to the State Property Authority under the provisions of the State Property Authority Act 2006. The cash to fund land remediation works required, together with the provision for the estimated cost of land remediation along with any other related assets or liabilities were transferred at the same time.

On 1 July 2007, all the properties contained in the Crown Property Portfolio were vested to the State Property Authority under the provisions of the State Property Authority Act 2006. In addition all assets and liabilities were transferred at the same time. The Crown Property Portfolio will cease to report on its finances separately and its accounts will be consolidated with those of State Property Authority.

This financial report was authorised for issue by the Secretary of NSW Treasury on the date the accompanying statement by the Secretary was signed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The Crown Property Portfolio's financial statements are a general-purpose financial report prepared in accordance with Australian Accounting Standards, relevant requirements of the 'Public Finance and Audit Act 1983' and Public Finance and Audit Regulations and Treasury Accounting Policy Statements. [The Crown Property Portfolio has been granted relief from the Financial Reporting Code.] Where there are inconsistencies between the above requirements the legislative provisions prevail.

The financial statements have been prepared on a historical cost basis, except for investment properties, property and plant and equipment, which have been measured at fair value and non-current assets held for sale which have been measured at the lower of the carrying amount and fair value less costs to sell.

The financial statements have been prepared on a "going concern" basis.

In the process of applying the entity's accounting policies, management have applied judgement and made key assumptions and estimations. Those judgements, assumptions and estimations, which have the most significant effect on the amounts recognised in the financial statements have been disclosed in the relevant notes to the financial statements.

All amounts are rounded to the nearest one thousand dollars ($'000) and are expressed in Australian currency.

(b) Statement of Compliance

The financial statements and accompanying notes comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AEIFRS').

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2007.

It is considered that the implementation of these standards will not have any material impact on the financial results of the Crown Property Portfolio.

These are listed as follows:

- AASB 7 & AASB 2005-10 regarding financial instrument disclosures.
- AASB 8 & AASB 2007-3 regarding operating segments.
- AASB 101 (Oct 2006) regarding presentation of financial statements.
- AASB 123 (June 2007) and AASB 2007-6 regarding borrowing costs.
- AASB 1049 regarding the general government sector and GFS/GAAP convergence.
- AASB 2007-4 regarding Australian additions to and deletions from IFRSs.
- AASB 2007-5 regarding inventories held for distribution by not-for-profit entities.
- Interpretation 4 (Feb 2007) regarding determining whether an arrangement contains a lease.
- Interpretation 10 regarding interim financial reporting.
- Interpretation 11 & AASB 2007-1 regarding group and treasury share transactions.
- Interpretation 12 & AASB 2007-2 regarding service concession arrangements.
- Interpretation 129 (Feb 2007) regarding service concession disclosures.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

(c) Employee Benefits

The Crown Property Portfolio has no employees and therefore no provision is needed for employee entitlements. Staff of the NSW Department of Commerce, undertook all work from 1 July 2006 to 31 August 2006 under an extended Management Agreement between the NSW Treasury and the Department. From 1 September 2006 the State Property Authority carried out all work previously undertaken by the Department of Commerce under the existing management agreement.

(d) Insurance

Properties owned or managed by or on behalf of the Crown Property Portfolio are insured for their replacement value under the Treasury Managed Fund administered by GIO Australia. The Crown Property Portfolio carries a comprehensive range of insurances through the Treasury Managed Fund covering property, public liability and other contingencies.

Management ensures that all insurance covers are current and adequate.

(e) Leased Assets

A distinction is made between finance leases, which effectively transfer from the lesser to the lessee substantially the entire substantially risks and benefits incidental to ownership of the leased assets, and operating leases under which the lesser effectively retains all such risks and benefits.

(i) Finance Leases

Assets held under finance leases are recognised on inception at an amount equal to the fair value of the leased property, or if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease liability (Note 16 (c)). Lease payments are allocated between the principal component of the lease liability and the interest expense.

(ii) Operating Leases

Operating lease payments are charged to the Income Statement on a straight-line basis over the lease term. Lease incentives are recognised directly to the Income Statement as an integral part of the total lease expense.

Leases in which the Crown Property Portfolio retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.

In accordance with AASB 140, where there is a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision. (Note 8 (a)).

The terms of occupancy for Government Agencies occupying space in CPP owned premises is dictated in the Memorandum of Understanding between the CPP and the Government Agency. The provisions of the Memorandum are generally based on market place conditions applicable to office buildings in commercial centres.
The term of the tenancy agreement is indefinite with the Agency required to give 18 months notice before they vacate. Termination of part tenancies is permitted subject to a variety of conditions being satisfied.

Rent reviews for owned Government Office Buildings are conducted at two yearly intervals to update rentals to current market rates. There are no ratchet clauses in place and tenants are charged an effective rental, which takes into consideration incentives available in the market place at a particular point in time.

Generally, tenants are expected to makegood the premises by undertaking a physical makegood or negotiating a financial settlement with CPP.

(f) Depreciation

Depreciation is provided on a straight-line basis for all depreciable non-current assets to allocate their depreciable amounts over their estimated remaining useful lives.

Asset	**Depreciation Rates**	
	2007	**2006**
Buildings	2.5%	2.5%
Computers	33.3%	33.3%
Land is not depreciated		

These rates are reviewed on an annual basis.

In accordance with AASB 140, Investment Property is not depreciated and under AASB 5 Assets Held For Sale are not depreciated.

(g) Amortisation

Leased assets are amortised over the period of the lease or the life of the asset whichever is the shorter.

(h) Non - current assets

Acquisition of property is recognised when the risks and rewards of the asset have passed to the buyer. This usually coincides with when the legal title passes to the buyer, which is upon settlement of a contract. The cost method of accounting is used for the initial recording of all acquisitions. Cost is determined as the fair value of the assets given as consideration plus the costs incidental to the acquisition. Fair value means the amount for which an asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction. Assets acquired at no cost or for nominal consideration are initially recognised as assets and revenues at their fair values at the date of acquisition.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

Computer equipment and furniture and fixtures with short useful lives are measured at depreciated historical cost, as a surrogate to fair value.

Physical non-current assets are valued in accordance with the "Guidelines for the Valuation of Physical Non-Current Assets at Fair Value" (TPP 07-01). This policy adopts fair value in accordance with AASB 116, 136 and 140.

In accordance with AASB 136, an entity must assess at reporting date whether there is any indication that an asset is impaired. If any such indication exists, the entity must estimate the recoverable amount of the asset.

The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell and depreciated replacement cost. Depreciated replacement cost is calculated as the current replacement cost of the most appropriate modern equivalent replacement asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

If, and only if, the recoverable amount of an asset is less than the carrying amount, the carrying amount must be reduced to its recoverable amount. That reduction is an impairment loss and is treated as a revaluation decrease in accordance with AASB 116.

(i) Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and any subsequent accumulated impairment losses.

The fair value of non-current assets is determined in accordance with AASB 116 and is measured based on market-based evidence. Where market-based evidence is not available, the asset's fair value is estimated using an income or depreciated replacement cost approach. Fair value revaluations are to be made with sufficient regularity to ensure the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The fair value of an asset is also to be measured at its highest and best use in its existing condition.

Leasehold land and buildings are revalued annually. Fair value is estimated using a discounted cash flow approach, appropriately taking into account the conditions attached to the leases.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the balance sheet except to the extent that it reverses a revaluation decrease of the same class of assets previously recognised in the Income Statement, in which case the revaluation increment is recognised in the Income Statement.

Any revaluation decrease is recognised in the Income Statement, except to the extent that it reverses a revaluation increase of the same class of assets previously recognised in the asset revaluation reserve.

Revaluation increments and decrements are offset against one another within a class of non-current assets.

Where assets are revalued, the accumulated depreciation at the revaluation date is credited to the assets to which it relates. The net assets are then increased or decreased by the revaluation increment or increment.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset is derecognised.

(i) Taxation

The activities of the Crown Property Portfolio are exempt from income tax.

(j) Contributions to Treasury

Contributions consist of surplus funds forwarded to Treasury from the leasing of property and from the proceeds of the sale of property.

(k) Revenue Recognition

(i) Sale of properties

Revenue is recognised when the significant risks and rewards of ownership of the properties have passed to the buyer and can be measured reliably. Specifically, with respect to property sales, the risks and rewards are considered passed to the buyer at the time of completion of the contract.

(ii) Rental income

Rental income arising on investment properties, and other property assets, is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the period in which it is earned.

(iii) Interest Income

Revenue is recognised as the interest accrues.

(iv) Contributions from Treasury

Contributions received from the Crown Entity are recognised as income when the Crown Property Portfolio obtains control of the contribution or the right to receive the contribution, it is probable the economic benefits will flow to the entity; and the amount of the contribution can be measured reliably.

(l) Financial Instruments

Financial instruments give rise to positions that are financial assets or liabilities of either the Crown Property Portfolio or its counterparties. These include Cash at Bank, Receivables and Payables.

(i) Cash and Cash Equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand, restricted cash and other short-term deposits with an original maturity of three months or less.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(ii) Receivables

Receivables, which generally have 30-day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Crown Property Portfolio will not be able to collect the debts. Bad debts are written off when identified.

(iii) Payables

Trade and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Crown Property Portfolio prior to the end of the financial year that are unpaid and arise when the Crown Property Portfolio becomes obliged to make future payments in respect of the purchase of these goods and services, whether or not billed to the Crown Property.

(iv) Financial Lease Liability

Finance lease liabilities are initially recognised at the present value of future minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the Income Statement.

(m) Capitalised Expenditure

Property expenditure that gives rise to an effective and material increase in the future economic benefits to the Portfolio is capitalised.

(n) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST, except:

(i) The amount of GST incurred by the CPP as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

(ii) Receivables and payables are stated with the amount of GST included.

(iii) Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the Australian Taxation Office, are classified as operating cash flows.

(iv) Commitments and contingencies and other amounts disclosed in the financial statements include the amount of GST recoverable from, or payable to, the Australian Taxation Office.

(o) Equity Transfers

The transfer of net assets between agencies as a result of an administrative restructure, transfers of programs/ functions and part thereof between NSW public sector agencies are designated as a contribution by owners by TPP06-07 “Contributions by Owners Made to Wholly Owned Public Sector Entities” and are recognised as an adjustment to “Accumulated Funds”. This treatment is consistent with Urgent Issues Group Interpretation UIG 1038 “Contributions by Owners Made to Wholly Owned Public Sector Entities”.

All other equity transfers are recognised at fair value.

(p) Provisions

Provisions exist when the entity has a present legal or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events. These provisions are recognised when it is probable that a future sacrifice of economic benefits will be required and the amount can be measured reliably.

(q) Investment Properties

Investment properties are measured initially at cost, including transaction costs. Where an investment property is acquired at no cost or for nominal cost, the investment property is measured initially at its fair value. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are recognised in the Income Statement in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Income Statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use evidenced by the ending of owner-occupation, commencement of an operating lease to another party or the ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from owner-occupied property to investment property, the Crown Property Portfolio accounts for such property in accordance with the policy stated under Property, Plant and Equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the Income Statement. When the Crown Property Portfolio completes construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the Income Statement.

(r) Assets held for sale

Where non-current assets carrying value will be principally recovered through a sale transaction rather than through continuing use, are available for immediate sale, and their sale is highly probable, the assets are classified as Held for Sale on the balance sheet.

Assets held for sale are measured at the lower of their carrying amount at the time of such classification and their fair value less costs to sell. These assets are not depreciated while they are classified as held for sale.

(s) Emerging Asset

In accordance with TPP 06-08 'Accounting for Privately Financed Projects' the Opera House carpark is an emerging asset, which the CPP has a right to receive in 2043 under a privately financed infrastructure arrangement. The right is being recognised as revenue and added to the asset value over the term of the carpark concession. Any periodic revaluations are accounted for in accordance with AASB 116 'Property, Plant and Equipment'.

(t) Property Expenses

Items classified as property expenses include maintenance of buildings, electricity, telephone, security, cleaning, gardening and sundry charges incurred in multiple occupancy buildings owned by the CPP. These expenses are recoverable from the tenants and are also reflected in Property Rental Income.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

2. PROPERTY RENTAL INCOME

(a) Total rental income

	12 months 30 June 2007 $'000	12 months 30 June 2006 $'000
Owned Property Plant & Equipment	46,590	40,079
Owned Investment Property	1,764	1,299
Leased property	102,829	114,400
	151,183	155,778

(b) Future minimum lease receipts under non-cancellable operating leases as lessor

	30 June 2007 $'000	30 June 2006 $'000
Future minimum lease receipts:		
Receivable within one year	36,712	44,658
Receivable later than one year but not later than five years	21,373	24,899
Receivable later than five years	22,999	21,311
Total including GST	81,084	90,868

Future minimum lease receipts as at 30 June 2007 are inclusive of GST, including GST payable of $7.371M. The GST payable is a contingent liability (Note 17).

3. INTEREST INCOME

	12 months 30 June 2007 $'000	12 months 30 June 2006 $'000
Interest earned 1 July 2006 to 31 January 2007 on land remediation bank account (Note 9)	4,483	6,870
Less:		
Interest earned 1 July 2006 to 31 January 2007 attributed to the $5M held in trust on behalf of the Newcastle University and Newcastle City Council (Notes 9 & 13)	(202)	(319)
	4,281	6,551

Interest $4.483M, on the land remediation bank account was only earned from 1 July 2006 to 31 January 2007 due to Crown Property Portfolio assets managed by the Regional Land Management Corporation, being vested to the State Property Authority on 1 February 2007. This resulted in the land remediation bank account, which earned interest also transferring on 1 February 2007.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

4. CONTRIBUTION FROM THE CROWN ENTITY

	12 months 30 June 2007 $'000	12 months 30 June 2006 $'000
Contributions for costs of capital works, asset acquisitions and property refurbishments	96,843	148,710
Management fee paid to NSW Department of Commerce and State Property Authority re Accommodation Strategic Alliance	-	2,343
	96,843	151,053

A contribution of $96.8M was received in 2006/07 towards costs for the construction of new government office building in Queanbeyan $7.8M, development of the Parramatta Justice Precinct $67.530M, the construction of a new government office building at Penrith $10.0M, major works for the Chief Secretary Building $0.92M and major refurbishments in various buildings $10.593M.

No contribution was received in 2006/07 in relation to Management fee paid to NSW Department of Commerce and State Property Authority re Accommodation Strategic Alliance, as this was funded directly from Crown Property Portfolio management fees expense $1.196M.

5. HEAD LEASE EXPENSE

Expenses as lessee

	12 months 30 June 2007 $'000	12 months 30 June 2006 $'000
Minimum lease payments	82,548	81,557
Contingent rentals	5,387	6,601
Rental expenses arising from sub-lease	12,758	13,674
	100,693	101,832
Less: Amortisation of a $68M lease incentive received in 1995 (Note 14 (a))	(1,909)	(3,819)
Less: Amortisation of $9.55M lease rent free incentives received during 2006/07 (Note 14 (a))	(1,133)	-
	97,651	98,013

The majority of head leased office accommodation properties are sub-leased to government agencies.

The terms of the operating head leases ranged from 3 to 10 years with the option of renewal of further terms. The lease agreements allow Lessors the right to review rents on specified dates. The expenditure for recurrent outgoings (including repairs and maintenance, electricity, cleaning, expenses for common areas and public risk insurance), subject to exclusion of repairs and maintenance of a structural or capital nature, is the responsibility of the Lessee (the CPP).

Contingent rentals are variations due to market reviews and changes to Consumer Price Index between the actual lease and the amounts of minimum lease payments determined at the inception of the lease.

Minimum lease payments were reduced by the $1.909M amortisation of a $68M lease incentive received in 1995 and the $1.133M amortisation of $9.55M rent free lease incentives received during 2006/07.

6. AUDIT FEES

	12 months 30 June 2007 $'000	12 months 30 June 2006 $'000
Fee for the audit of current year's annual accounts	69	62
Special fee for additional audit resulting from the introduction of AEIFRS	25	5
	94	67

The NSW Audit Office did not receive nor is due to receive any other benefit.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

7. CONSULTANTS

Expenditure on consultants during the year totalled $0.072M (2005/06 $0.042M).

8. PROVISIONS

(a) Onerous Contract - Provision for sub-lease income shortfall

	2007 $'000	2006 $'000
Carrying balance at the beginning of year	467	2,261
Reductions in provisions from payments and other sacrifices	(467)	(1,794)
Carrying balance at the end of year	-	467
Current liability	-	467
Non current liability	-	-
Total liability	-	467

The provision for Pacific Power Building, Sydney was reversed on 9 May, 2007 with the end of the existing head lease commitment. The provision is the net present value of the excess of the head lease commitments over the estimated sub-lease rentals over the expected period of the shortfall. A discount rate of 6.02% was used and the level of the provision is reviewed at the end of each year and an adjustment made to the Income Statement.

(b) (i) Provision for land remediation and other restoration costs

Land remediation and makegood restoration liability	12 months 30 June 2007 $'000	12 months 30 June 2006 $'000
Current liability	2,874	27,863
Non current liability	15,570	110,559
Total liability	18,444	138,422

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

(b) (ii) Land Remediation

Land Remediation	12 months 30 June 2007 $'000	12 months 30 June 2006 $'000
Carrying balance of Environmental remediation of steel works main site and Kooragang Islands waste emplacement site, environmental monitoring of main site over 10 years, heritage interpretation funding proposal and relocation of the railway line to OneSteel (Moorandoo Crossing) at the beginning of year	128,854	147,267
Increase in provisions from revised present value of liability	8,337	-
Reduction in provisions from payments	(10,757)	(6,348)
Reduction in provisions from revised present value of liability	-	(12,065)
Transfer of provision to State Property Authority	(121,434)	-
Carrying balance at the end of year	5,000	128,854
Less: Heritage interpretation funding proposal included in receivables balance	-	(5,000)
Less: Payments from heritage interpretation funding proposal	(1,700)	-
Less: Balance of heritage interpretation funding proposal transferred to State Property Authority	(3,300)	-
Provision balance at the end of the year	-	123,854
Current liability	-	24,145
Non current liability	-	99,709
Total liability	-	123,854

The Crown acquired the former BHP main steel works site, Kooragang Islands waste emplacement site and another two parcels of lands in Newcastle, in June 2002. The former BHP main steel works site and Kooragang Islands waste emplacement site needed remediation works to remove various contaminations associated with steel making. The Crown negotiated, as part of land acquisition package consideration, for BHP Billiton to pay an amount to compensate for the total estimated cost of land remediation and other works.

At the time the purchase was being negotiated, the Government sought advice on the estimated remediation costs for the main steel site and the Kooragang Island waste emplacement site. In providing this assessment, a number of assumptions as to the nature of future development and the method of remediating the sites were made.

BHP Billiton Ltd agreed to pay $108.987M, including $5M for Heritage Interpretation Funding Proposal which was received by the Crown 'on trust', based on the total negotiated estimated costs of remediation and other works as shown in the Environmental Deed dated 31 July 2002 between the BHP Billiton Ltd and the Crown.

The Government established a special subsidiary corporation, the Regional Management Land Corporation, which provided in June 2006, an estimate of the remaining remediation works.

On 1 February 2007, the above sites were transferred to the State Property Authority under the provisions of the State Property Authority Act 2006. The cash to fund the remediation works required, together with the above provision for the estimated cost of remediation were transferred at the same time.

(b) (iii) Makegood Restoration

Makegood Restoration	June 2007 $'000	June 2006 $'000
Carrying balance at the beginning of year	14,568	13,846
Increase in provision from revised present value of liability	3,922	722
Reduction in provision from payments	(46)	-
Carrying balance at the end of year	18,444	14,568
Current liability (Note 10)	2,874	3,718
Non current liability (Note 10)	15,570	10,850
Total liability	18,444	14,568

The makegood restoration liability is calculated on all leased properties, where CPP is the lessee and reflects an estimate of the cost to makegood the premises to their original condition at the end of the lease term. The makegood costs are recoverable in full from the sub-lessees. A discount rate of 6.02% was used and the level of the provision is reviewed at the end of each year and an adjustment made to Receivables.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

9. CASH FLOW STATEMENT

(a) Reconciliation of Cash and cash equivalents

	30 June 2007 $'000	30 June 2006 $'000
Cash at bank	20,386	142,517
Restricted cash, which remains part of cash and cash equivalents in the balance sheet.	-	6,076
	20,386	148,593

Included in the 30 June 2006 cash balance is $126.571M set aside for remediation on land acquired by the Crown from BHP Billiton in 2002. Out of this amount $6.076M including interest, is held 'on trust' on behalf of the Newcastle Council and the University of Newcastle in relation to the funding proposal for the implementation of the Revised Heritage Interpretation Strategy.

On 1 February 2007, properties managed by the Regional Land Management Corporation including land requiring remediation (Note 12) were transferred to the State Property Authority under the provisions of the State Property Authority Act 2006. The remaining cash $120.777M available to fund the remediation works required including the restricted cash balance were transferred at the same time.

(b) Reconciliation of the Surplus/ (Deficit) for the year to the Net Cash Provided by Operating Activities:

	Notes	12 months 30 June 2007 $'000	12 months 30 June 2006 $'000
Surplus / (Deficit) for the year	15	112,182	139,553
Lease incentive	5	(3,042)	(3,819)
Loss / (Gain) from disposal of property		76	(477)
Emerging Asset increment		(1,115)	(1,033)
Deferred income from prepaid rent of long term leases	14 (b)	(1,764)	(1,299)
Depreciation	11 (d)	4,897	3,196
Amortisation	11 (d)	2,093	4,495
Provision for doubtful debts		(148)	265
Increase / (Decrease) in Provisions for sub-lease income shortfall	8 (a)	(467)	(1,794)
Asset sales proceeds transferred to the Crown Entity	13 & 15	(329)	(2,587)
Contributions to the Crown Entity	15	(28,335)	(70,039)
Refund of capital works allocation to the Crown Entity		(2,563)	-
(Decrease) / Increase in Interest bearing liabilities		(1,099)	2,251
(Decrease) / Increase in provision for land remediation and other restoration costs		(904)	(13,494)
(Increase) / Decrease in operating receivables		(970)	1,761
(Decrease) / Increase in payables		8,827	(830)
Decrease in other assets		-	32,418
Net cash provided by operating activities		**87,339**	**88,567**

10. RECEIVABLES

Current	30 June 2007 $'000	30 June 2006 $'000
Trade Receivables	2,990	3,457
Provision for doubtful debts	(152)	(338)
	2,838	3,119
Other Receivables		
GST receivable	1,702	1,585
Makegood cost recoverable (Note (8) (b) (iii))	2,874	3,718
Other	2,542	4,235
	7,118	9,538
Total current receivables	9,956	12,657

Non-Current	30 June 2007 $'000	30 June 2006 $'000
Makegood cost recoverable ((Note (8) (b) (iii))	15,570	10,850
Total non current receivables	15,570	10,850

Trade receivables and other receivables including makegood are non-interest bearing and are generally on 30-day terms.

Movement in the provision for doubtful debts

	12 months 30 June 2007 $'000	12 months 30 June 2006 $'000
Balance at the beginning of year	(338)	(96)
Amount written off to provision	38	23
(Increase) / decrease in provision	148	(265)
Balance at the end of year	(152)	(338)

11. NON CURRENT ASSETS & ASSETS HELD FOR SALE

(a) (i) Property Plant and Equipment

	30 June 2007 $'000	30 June 2006 $'000
Unimproved Land – at fair value	58,892	191,902
Land and buildings – at fair value	402,408	392,057
Less: Accumulated depreciation	(6,385)	(1,500)
	396,023	390,557
Works in Progress	138,336	53,006
Emerging Asset	10,308	9,193
Computer equipment – at fair value	68	68
Less: Accumulated depreciation	(48)	(38)
	20	30
Total Property, plant and equipment – Net book value	**603,579**	**644,688**

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

(a) (ii) Finance Lease

	30 June 2007 $'000	30 June 2006 $'000
Finance Lease – at fair value	93,334	70,805
Less: Accumulated amortisation	-	(32,173)
Total Finance Lease – Net book value	**93,334**	**38,632**
Total Property Plant and Equipment	**696,913**	**683,320**

(b) Investment Property

	30 June 2007 $'000	30 June 2006 $'000
Investment land – at fair value	15,673	15,673
Investment building– at fair value	45	45
Total Investment Property – at fair value	**15,718**	**15,718**

(c) Assets Held For Sale

	30 June 2007 $'000	30 June 2006 $'000
Land – at fair value	23,750	24,290
Total Assets Held For Sale – at fair value	23,750	24,290

(d) Asset movement summary as at 30 June 2007

	Property Plant & Equipment $'000	Property Plant & Equipment Finance Lease $'000	Investment Property $'000	Assets Held For Sale $'000	Total $'000
Carrying Amount					
Opening balance 1 July 2006	**646,226**	**70,805**	**15,718**	**24.290**	**757,039**
Add: Capitalised expenditure	95,083	-	-	-	95,083
Add: Asset revaluation increment	5,140	22,529	-	-	27,669
Add: Emerging value increase	1,115	-	-	-	1,115
Transfer of asset held for sale to property plant and equipment	150	-	-	(150)	-
Less: Disposals	-	-	-	(390)	(390)
Less: Assets transferred to other government agency	(137,700)	-	-	-	(137,700)
Closing Balance 30 June 2007	**610,014**	**93,334**	**15,718**	**23,750**	**742,816**
Accumulated Depreciation & Amortisation					
Opening balance 1 July 2006	**1,538**	**32,173**	**-**	**-**	**33,711**
Add: Charge for the year	4,897	2,093	-	-	6,990
Less: Reversal due to asset revaluation	-	(34,266)	-	-	(34,266)
Closing Balance 30 June 2007	**6,435**	**-**	**-**	**-**	**6,435**
Net Carrying Amount					
Balance 1 July 2006	**644,688**	**38,632**	**15,718**	**24,290**	**723,328**
Balance 30 June 2007	**603,579**	**93,334**	**15,718**	**23,750**	**736,381**

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

(e) Asset movement summary as at 30 June 2006

	Property Plant & Equipment	**Property Plant & Equipment Finance Lease**	**Investment Property**	**Assets Held For Sale**	**Total**
	$'000	$'000	$'000	$'000	$'000
Carrying Amount					
Opening balance 1 July 2005	**514,747**	**163,789**	**15,713**	**25,245**	**719,494**
Add: Acquisitions	3,901	-	-	-	3,901
Add: Capitalised expenditure	50,551	-	-	-	50,551
Add: Asset revaluation increment / (decrement)	22,674	3,516	(598)	-	25,592
Add: Revaluation of asset transferred to other government agency	856	-	-	-	856
Add: Emerging value increase	1,032	-	-		1,032
Initial cost of long term lease for investment property	-	-	603	-	603
Transfer to investment property for long term lease	(40,179)	-	40,179	-	-
Decrement due to reduction of investment property for long term lease	-	-	(31,720)	-	(31,720)
Less asset revaluation reserve of investment property for long term lease	-		(7,927)		(7,927)
Less accumulated depreciation of property for long term lease	-	-	(532)	-	(532)
Less: Disposals	-	-	-	(955)	(955)
Less: Assets transferred to other government agency	(3,856)	-	-	-	(3,856)
Transfer of finance lease to land & buildings	96,500	(96,500)	-	-	-
Closing Balance 30 June 2006	**646,226**	**70,805**	**15,718**	**24.290**	**757,039**
Accumulated Depreciation & Amortisation					
Opening balance 1 July 2005	**5,575**	**36,182**	**-**	**-**	**41,757**
Add: Charge for the year	3,196	4,495	-	-	7,691
Less: Reversal due to asset revaluation	(7,233)	(8,504)	-	-	(15,737)
Closing Balance 30 June 2006	**1,538**	**32,173**	**-**	**-**	**33,711**
Net Carrying Amount					
Balance 1 July 2005	**509,172**	**127,607**	**15,713**	**25,245**	**677,737**
Balance 30 June 2006	**644,688**	**38,632**	**15,718**	**24,290**	**723,328**

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

Property Plant & Equipment

All land and buildings classified as ‘property plant and equipment’ and ‘investment property’ were independently valued on 1 January 2006. The following independent qualified valuers, Savills and Landmark White, undertook valuations and provided the current fair value on a highest and best use basis. Where the property was occupied, the market valuation reflects the actual lease, licence or tenancy agreement in place.

All owned government office buildings under the highest and best use basis of valuation were valued using the income capitalisation valuation approach and discounted cash flow method. Both valuation firms were provided with market rentals for all government office buildings that were determined as at 1 January 2005 and were required to adopt these rentals as part of their valuation.

Under the income capitalisation approach, valuers were required to estimate market outgoings for the building to deduce a net market income for the property and then capitalise the net income using a yield that had been sourced from available market evidence. Below the line deductions were made for letting up periods and required capital works over the next 12 months. Landmark White adjusted the capitalisation rate to reflect the quality of the building.

With regards to the discounted cashflow method, valuers used the following:

- Rental growth rates used generally range between 2.00-5.00% per annum depending on the location of the property, supply coming on to the market and the likely future demand for accommodation.
- Outgoing growth rates used are generally in the range of 3.00-4.00% per annum.
- Discount Rates used were influenced by many factors including the returns available from alternative investments, long term bond rates, current property yields, expected CPI increases, rental growth and the perceived risk of illiquidity associated with the property. Discount rates ranging from 9.00-12.00% have typically been adopted for the majority of the Portfolio.
- Terminal yields ranging from 8.00-12.00%. These rates assume that prevailing market conditions are similar to those being experienced as at the date of valuation. The valuer has also had regard to the level of capital works to be undertaken over the holding term and the quality of the building at the end of ten years.

Recent market evidence was sourced from alternative regional locations for a number of properties as in some cases the Government Office Building is the only office building in town. This is standard valuation practice where limited sales or rental evidence exists in a small market place.

In accordance with NSW Treasury Guidelines for Valuation of Physical Non-Current Assets at Fair Value and Australian Accounting Standards, valuation firms were engaged to determine whether or not there was any indication that the advised carrying amount as at 30 June 2007, differed materially from the asset’s current fair value. The following independent qualified valuers, Savills and Landmark White, prepared a statement of value for each property as at 1 July 2007 and concluded that if the properties were to be revalued there would be no material increase or decrease to the carrying amount. The valuers arrived at this conclusion after taking into consideration the following:

- Carrying amount of the asset compared to the 1 January 2006 valuation.
- Changes to market and economic conditions that have occurred since the 1 January 2006 valuation.
- Changes to forecasts that were contained in the 1 January 2006 valuation.

Expenditure capitalised during the year and classified as works in progress relates to the construction of the Queanbeyan government office building $7.8M, the development of the Parramatta Justice Precinct $67.530M and the construction of the Penrith government office building $10.0M.

Other expenditure capitalised during the year relates to refurbishment works in other various buildings $9.75M.

Investment Property

Investment property relates to seven properties leased out to non-government tenants on long term (over 50 years) operating leases.

All investment properties were independently revalued on 1 January 2006, except for a newly entered lease, which is recorded as Nil at inception. An independent qualified valuer, Landmark White, who has recent experience in comparable markets and category of the investment properties being valued, performed the valuation.

The methods of valuation differ slightly for each property but all rely on the valuer having regard to recent sales evidence to determine the property's market value. The present value of the annual net rental cashflow derived under the lease of the property is then added to the emerging value to arrive at the Entity's interest in the property. The discount rate used in the analysis to arrive at market value for the investments is 5%.

Any change in the current property investment climate could materially affect the value of these properties for the next reporting period.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

In accordance with NSW Treasury Guidelines for Valuation of Physical Non-Current Assets at Fair Value and Australian Accounting Standards, valuation firms were engaged to determine whether or not there was any indication that the advised carrying amount as at 30 June 2007, differed materially from the asset's current fair value. The following independent qualified valuers, Savills and Landmark White, prepared a statement of value for each property as at 1 July 2007 and concluded that if the properties were to be revalued there would be no material increase or decrease to the carrying amount.

The valuers arrived at this conclusion after taking into consideration the following:

- Carrying amount of the asset compared to the 1 January 2006 valuation.
- Changes to market and economic conditions that have occurred since the 1 January 2006 valuation.
- Changes to forecasts that were contained in the 1 January 2006 valuation.

Heritage Assets

The following properties had restrictions due to being heritage listed and the valuation takes into account the highest and best use of the property:

- GOB Bourke, 21 Mitchell Street, Bourke
- GOB Bourke, 51-53 Oxley Street, Bourke
- Chief Secretary's Building, 121 Macquarie Street, Sydney
- Education Building, 35-39 Bridge Street, Sydney
- GOB Mudgee, 90 Market Street, Mudgee
- GOB Forbes, Camp Street, Forbes
- Heritage Office, 3 Marist Place, Parramatta
- Nundle Court House, Cnr Jenkins and Durban Streets, Nundle
- Strickland House, 52 Vaucluse Road, Vaucluse
- Agar Steps Terraces, 5-9 Agar Steps, Millers Point
- Glover Cottage, 124 Kent Street, Millers Point
- Richmond Villa, 120 Kent Street, Millers Point
- National Trust Centre, Bradfield Highway, Millers Point

Other

Two properties, Birmingham Gardens, Lot 380 and 381, Jones Street, Newcastle, were disposed of during 2006-07. 6A Huntley Street, Alexandria remained classified as asset held for sale as the sale was delayed and was disposed of on 3rd July, 2007. 14-16 Rivers Street, Macksville was not sold during 2006-07 and has been transferred to property plant and equipment.

The finance lease balance as at 30 June 2007, relates to Noel Park House, Marius Street, Tamworth. Noel Park is being amortised over the life of the lease and the Colonial State Bank, 50 Martin Place, Sydney, which is being amortised over the estimated economic life of the building.

12. TRANSFER OF FUNCTIONS

Effective 1 April 2003, the management of properties at the Lower Hunter Region, Newcastle, including the former BHP main steel site and another 3 parcels of land acquired from BHP and the Kooragang Islands industrial estates, were transferred to the Regional Lands Management Corporation (RLMC), a special purpose subsidiary established by the NSW State Government and Hunter Water Corporation (a State Owned Corporation) to assume interim management of these properties. From 1 April 2003, all revenues generated from rental and all expenses associated with the interim management of these properties accrue to the RLMC. No other assets or liabilities have been transferred to RLMC.

On 1 February 2007, the above properties managed by RLMC, were transferred to the State Property Authority under the provisions of the State Property Authority Act 2006. The cash to fund land remediation works required, together with the provision for the estimated cost of land remediation along with any other related assets or liabilities were transferred at the same time.

13. PAYABLES

	30 June 2007 $'000	30 June 2006 $'000
Land remediation (RLMC) expense	-	4,920
Property sales proceeds payable to Treasury	-	15
Refund due to Treasury	-	2,563
Monies held 'on trust'	-	6,076
Property expenses	9,003	7,467
Audit fees	69	36
	9,072	21,077

Monies held 'on trust' as at 30 June 2006 comprised $5M original amount received on behalf of Newcastle University and Newcastle City Council plus the interest earned, $1.076M, from 31 July 2002. The balance of the monies held 'on trust' was subsequently transferred to the State Property Authority on 1 February 2007 (Note 12).

14. DEFERRED INCOME

(a) Incentive from lessor

Incentive from lessor	30 June 2007 $'000	30 June 2006 $'000
Lease incentive payment received upfront	68,000	68,000
Less: Previous years amortisation	(66,091)	(62,272)
Less: Current year amortisation	(1,909)	(3,819)
	-	1,909
Lease rent free incentive received	9,550	-
Less: Current year amortisation	(1,134)	-
	8,416	1,909
Current liability	1,408	1,909
Non current liability	7,008	-
Total liability	8,416	1,909

A lease incentive payment of $68M was received from the former SAS Trustee Corporation in January 1995 and relates to a twelve-year lease on the Governor Macquarie Tower. The lease incentive is recognised as a reduction of Head Lease Expenses over the term of the lease.

Lease rent free incentives were received on a 6-year lease for Macquarie Tower Parramatta ($5.15M) in July 2006 and on an 8-year lease for Governor Macquarie Tower ($4.4M) in January 2007. The lease incentives are recognised as a reduction of Head Lease Expenses over the term of the leases.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

(b) Prepaid long-term leases

The CPP as lessor has leased the following properties on long term operating leases of over 50 years and received prepaid rentals, which it is recognising as income on a straight line basis over the lease terms: Goodsell Building, Colonial State Bank Centre, Aurora Place, Sir Stamford Hotel, Wentworth Chambers and Agar Steps Terraces.

Prepaid long-term leases	**30 June 2007 $'000**	**30 June 2006 $'000**
Prepaid rental payment received upfront	185,791	185,791
Less: Previous years amortisation	(17,107)	(15,808)
Less: Current year amortisation	(1,764)	(1,299)
	166,920	168,684
Current liability	1,764	1,764
Non current liability	165,156	166,920
Total liability	166,920	168,684

Total Deferred Income	**30 June 2007 $'000**	**30 June 2006 $'000**
Current liability	3,172	3,673
Non current liability	172,164	166,920
Total liability	175,336	170,593

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

15. TOTAL EQUITY

	Accumulated Funds		Asset Revaluation Reserve		Total Equity	
	30 June 2007 $'000	30 June 2006 $'000	30 June 2007 $'000	30 June 2006 $'000	30 June 2007 $'000	30 June 2006 $'000
Balance at the beginning of financial year	243,268	178,176	259,299	226,983	502,567	405,159
Changes in equity – transactions with owners as owners						
(Decrease) in net assets						
– Asset sale proceeds transferred to the Crown	(314)	(1,422)			(314)	(1,422)
Entity	(28,335)	(70,039)			(28,335)	(70,039)
– Contributions to the Crown Entity						
– Transfer of assets and liabilities to other	(128,826)	(3,856)			(128,826)	(3,856)
Total	(157,475)	(75,317)	-	-	(157,475)	(75,317)
Changes in equity – other than transactions with owners as owners						
Surplus/ (Deficit) for the year	112,182	139,553	-	-	112,182	139,553
Asset revaluation increment	-	-	61,934	33,172	61,934	33,172
Transfer of revaluation reserve to accumulated funds for assets transferred to other government agency	71,975	856	(71,975)	(856)	-	-
Transfer of asset revaluation reserve on disposal of assets held for sale	(40)	-	40	-	-	-
Total	184,117	140,409	(10,001)	32,316	174,116	172,725
Balance at the end of financial year	269,910	243,268	249,298	259,299	519,208	502,567

The total asset revaluation reserve is attributable to the following classes of non-current assets

	30 June 2007 $'000	30 June 2006 $'000
Land and buildings	147,197	146,599
Vacant land	39,972	107,366
Finance Lease	62,129	5,334
	249,298	259,299

The asset revaluation reserve is used to record any increase or decrease in the fair value of assets resulting from revaluing non-current property plant and equipment and finance leases. Any movement is not recorded in the Income Statement but recorded in the balance sheet and no dividends can be distributed from the asset revaluation reserve.

Transfers to the Crown Entity included:

	30 June 2007 $'000	30 June 2006 $'000
Surplus from rental operations (including prepaid long term lease rental receipts)	28,335	70,039
Proceeds from sale of property	314	1,422
	28,649	71,461

The strategic alliance agreement (1 July 2002 to 30 June 2006 and extended to 30 June 2007) between NSW Treasury and NSW Department of Commerce has the following included as a portfolio objective " Provide an appropriate and agreed financial return to Treasury". The agreed financial return is the surplus from rental operations and the net proceeds from sale of property shown above.

16. EXPENDITURE COMMITMENTS

(a) Capital Expenditure Commitments

	2007 $'000	2006 $'000
Capital expenditure contracted at balance date but not provided for:		
Payable within one year	94,484	105,124
Payable later than one year but not later than five years	2,200	90,530
Payable later than five years	-	-
	96,684	195,654

Capital expenditure commitments as at 30 June 2007 are inclusive of GST, including GST recoverable input tax credits of $8.789M (Note 17). The GST recoverable is a contingent asset (Note 17). Total commitments are in relation to the construction of a new government office building in Queanbeyan $34.705M, development of the Parramatta Justice Precinct $25.476M, construction of a new government office building at Penrith $31.350M and refurbishment works in various other buildings $5.153M.

(b) Future minimum lease payments under non-cancellable operating leases as lessee. These future minimum lease payments will be recouped under sub leases.

	2007 $'000	2006 $'000
Head Leases future minimum lease payments contracted at balance date but not provided for:		
Payable and receivable within one year	82,320	60,273
Payable and receivable later than one year but not later than five years	229,124	78,077
Payable and receivable later than five years	45,438	9,190
Total including GST	356,882	147,540

Future minimum lease payments and receipts as at 30 June 2007 are inclusive of GST, including GST recoverable input tax credits of $32.444M and GST payable of $32.444M. The GST payable is a contingent liability and the GST recoverable is a contingent asset (Note 17).

(c) Finance Lease Liabilities

	30 June 2007 $'000 Minimum Lease Payments	30 June 2007 $'000 Finance Costs	30 June 2007 $'000 Lease Liability	30 June 2006 $'000 Minimum Lease Payments	30 June 2006 $'000 Finance Costs	30 June 2006 $'000 Lease Liability
Lease liability as at 30 June:						
Current	6,003	4,270	1,733	6,003	4,398	1,605
Non Current	99,513	43,630	55,883	105,516	47,900	57,616
Total	105,516	47,900	57,616	111,519	52,298	59,221
Payable within one year	6,003	4,270	1,733	6,003	4,398	1,605
Payable later than one year but not later than five years	24,014	15,589	8,425	24,014	16,210	7,804
Payable later than five years	75,499	28,041	47,458	81,502	31,690	49,812
Total	**105,516**	**47,900**	**57,616**	**111,519**	**52,298**	**59,221**

Finance lease refers to leases on Noel Park House and Colonial State Bank. The Noel Park House lease has a lease term of 25 years with no option to purchase the asset at the completion of the lease term in 2017. The discount rate implicit in the lease is 8.31% pa. The Colonial State Bank leases liability is being amortised over the estimated economic life of the building, which is 40 years and ends in 2026. The discount rate implicit in the lease is 7.64% pa.

17. CONTINGENT ASSETS AND LIABILITIES

A contingent asset and liability not yet recognised in the financial statements of the CPP, exists with respect to GST recoverable from and payable to the Australian Taxation Office on capital and lease commitments. The contingent asset is $41.233M and the contingent liability is $39.815M.

A contingent asset of $0.100M is recognised in relation to the litigation proceedings brought by Emerald Holding Company Limited. The proceedings arise from Emerald Holding Company, the purchaser of the State Bank of NSW in 1994, claiming indemnity involving the State Bank of NSW in respect of matters arising prior to its sale. The litigation proceedings were discontinued on 16 October 2006 and Emerald holding Company Limited ordered to pay the NSW Crowns costs.

A contingent liability of $0.350M is recognised due to a judgement being delivered on 28 July 2006 in relation to the break benefits litigation proceedings. The proceedings arise from certain changes to the structured finance arrangements that were put in place in 1991 when Rawson Place Pty Ltd acquired the McKell Building from the NSW Crown. The NSW Crown was ordered to pay the costs of defendants State Bank of NSW (now Commonwealth Bank of Australia).

Contingent Assets and Liabilities	**30 June 2007 $'000**	**30 June 2006 $'000**
Contingent Assets		
GST Recoverable Input Tax Credit:		
Capital Commitments (Note 16 (a))	8,789	17,787
Future minimum lease receipts under non-cancellable operating leases as lessee (Note 16 (b))	32,444	13,413
Litigation	100	624
	41,333	31,824
Contingent Liabilities		
GST Payable:		
Future minimum lease receipts under non-cancellable operating leases as lessor (Note 2 (b))	7,371	8,261
Future minimum lease receipts under non-cancellable operating leases as lessee (Note 16 (b))	32,444	13,413
Litigation	350	200
	40,165	21,874

18. SYDNEY OPERA HOUSE CAR PARK LEASE

The Sydney Opera House Car Park is leased by the Crown to a private consortium on a 50-year ground lease, which commenced on 13 March 1993. The lessee has constructed at its own expense a subterranean car park with a design life of 50 years. At the expiration of the lease term the Government has the right to receive the car park. Rental income from the lease ($1.333M 2006/07) is reflected in the Income Statement. The value of the Car Park land $12.225M is recognised as Investment Property and, in accordance with TPP06-08 "Accounting for Privately Funded Projects", the right to receive the car park at the expiration of the lease term as revenue and an asset whose value emerges during the term of the lease. The value is being allocated during the term of the lease as if it were the compound value of an annuity discounted at the NSW government bond rate applicable at 13 March 1993 being 8.0%. The asset will be revalued at its fair value as part of the annual valuation process undertaken and any movement recognized in the asset revaluation reserve.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2007

19. CORRECTION OF PREVIOUS YEARS ERRORS

(a) The Crown Property Portfolio entered into a lease from 1 January 1986 to use a portion of the Colonial State Bank. In previous years the Crown Property Portfolio has recognised the lease as an operating lease, it has subsequently corrected this error and now recognises the lease as a finance lease.

Under AASB 108 requirements, an entity shall correct material prior period errors retrospectively by restating the comparative amounts for the prior period presented in which the error occurred as per below.

Colonial State Bank correction of previous years errors impact on opening equity as at 1 July 2005	**Restated 2006 $'000**	**Original 2006 $'000**
Opening equity balance as at 1 July 2005	398,055	408,323

Colonial State Bank correction of previous years errors impact on financial statements as at 30 June 2006	**Restated 2006 $'000**	**Original 2006 $'000**
Expenses		
Amortisation stated in the Income Statement for the year ending 30 June 2006	4.573	3,016
Head lease expenses stated in the Income Statement for the year ending 30 June 2006	98,013	107,274
Borrowing costs stated in the Income Statement for the year ending 30 June 2006	23,715	19,928
Total expenses excluding losses stated in the Income Statement for the year ending 30 June 2006	175,417	179,334
Profit for the year		
Profit for the year stated in the Income Statement for the year ending 30 June 2006	138,442	134,525
Non-Curret Assets		
Property plant and equipment stated in the Balance Sheet as at 30 June 2006	674,127	643,761
Total non-current assets stated in the Balance Sheet as at 30 June 2006	704,719	674,353
Total Assets		
Total assets stated in the Balance Sheet as at 30 June 2006	890,259	859,893
Current Liabilities		
Interest bearing liabilities stated in the balance sheet as at 30 June 2006	1,605	506
Provisions – sub lease income shortfall stated in the balance sheet as at 30 June 2006	467	2,671
Total current liabilities stated in the balance sheet as at 30 June 2006	57,766	58,871
Non-Current Liabilities		
Interest bearing liabilities stated in the balance sheet as at 30 June 2006	57,616	8,010
Provisions – sub-lease icome shortfall stated in the balance sheet as at 30 June 2006	-	11,784
Total non-current liabilities stated in the balance sheet as at 30 June 2006	335,095	297,273
Total Liabilities		
Total liabilities stated in the balance sheet as at 30 June 2006	392,861	356,144
Net Assets		
Net assets stated in the balance sheet as at 30 June 2006	497,398	503,749
Accumulated Funds		
Accumulated funds stated in the balance sheet as at 30 June 2006	219,206	225,557
Total Equity		
Total equity stated in the balance sheet as at 30 June 2006	497,398	503,749

(b) The adoption of TPP 06-08 'Accounting for Privately Financed Projects' in 2006/07 has resulted in the CPP's residual interest in the Opera House carpark being recognised as revenue and added to the emerging value of the asset included in property, plant and equipment, over the term of the concession. Previously, this asset was regarded as an intangible, amortised and movements in its emerging value reflected through the asset revaluation reserve.

Under AASB 108 requirements, an entity shall correct material prior period errors retrospectively by restating the comparative amounts for the prior period presented in which the error occurred as per below.

Sydney Opera House Carpark correction of previous years errors impact on opening equity as at 1 July 2005	**Restated 2006 $'000**	**Original 2006 $'000**
Opening Equity		
Opening equity in the balance sheet as at 1 July 2005	173,564	165,403

Sydney Opera House Carpark correction of previous years errors impact on financial statements as at 30 June 2006	**Restated 2006 $'000**	**Original 2006 $'000**
Expenses		
Amortisation stated in the Income Statement for the year ending 30 June 2006	2,938	3,016
Total expenses excluding losses stated in the Income Statement for the year ending 30 June 2006	179,256	179,334
Income		
Emerging asset increment for the year stated in the Income Statement for the year ending 30 June 2006	1,033	-
Total retained revenue	314,415	313,382
Profit for the year		
Profit for the year stated in the Income Statement for the year ending 30 June 2006	135,636	134,525
Non-Curret Assets		
Intangible stated in the Balance Sheet as at 30 June 2006	-	4,024
Property plant and equipment stated in the Balance Sheet as at 30 June 2006	652,954	643,761
Total non-current assets stated in the Balance Sheet as at 30 June 2006	679,522	674,353
Total Assets		
Total assets stated in the Balance Sheet as at 30 June 2006	865,062	859,893
Net Assets		
Net assets stated in the balance sheet as at 30 June 2006	508,918	503,749
Accumulated Funds		
Accumulated funds stated in the balance sheet as at 30 June 2006	234,829	225,557
Asset Revaluation Reserve		
Asset revaluation reserve in the balance sheet as at 30 June 2006	259,299	263,402
Total Equity		
Total equity stated in the balance sheet as at 30 June 2006	508,918	503,749

20. EVENTS AFTER BALANCE SHEET DATE

On 1 July 2007, all the properties contained in the Crown Property Portfolio were vested to the State Property Authority under the provisions of the State Property Authority Act 2006. In addition all assets and liabilities were transferred at the same time. The Crown Property Portfolio will have no financial activity from 1 July, 2007

6A Huntley Street, Alexandria, classified as asset held for sale as at 30th June, 2007 was disposed of on 3rd July, 2007, resulting in proceeds from sale of $39.975M.

End of Audited Financial Statements

New South Wales

TREASURY

Crown Lands Homesites Program

Financial Report
for the year ended
30 June 2007

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

CROWN LANDS HOMESITES PROGRAM

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Crown Lands Homesites Program (the Program), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Program as of 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

The Secretary of the Treasury's Responsibility for the Financial Report

The Secretary of the Treasury is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Secretary of the Treasury, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Program,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Independence

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

Peter Boutous

P J Boutous
Director, Financial Audit Services

8 October 2007
SYDNEY

CROWNLANDS HOMESITES PROGRAM

Pursuant to Section 41C of the *Public Finance and Audit Act* 1983, I declare that in my opinion:

a) the accompanying financial report exhibits a true and fair view of the financial position of the Crown Lands Homesites Program as at 30 June 2007 and the financial performance for the year then ended; and

b) the financial report has been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2005, Treasurer's Directions and Australian Accounting Standards.

I am not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.

Ian Neale
Acting Secretary
5 October 2007

CROWN LANDS HOMESITES PROGRAM

ADOPTION OF FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2007

The attached financial report of Crown Lands Homesites Program has been prepared in accordance with the statutory provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005* and the Treasurer's Directions.

Pursuant to the *Public Finance and Audit Act 1983*, it is recommended that:

> The financial report for the year ended 30 June 2007 be adopted and the Secretary of the Treasury provide a statement to the effect that in his opinion the accompanying financial report exhibits a true and fair view of the financial position and transactions of Crown Lands Homesites Program and that the report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005*, and the Treasurer's Directions, and further, that he is not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.
>
> We declare that to the best of our knowledge and belief, the Crown Lands Homesites Program is able to pay its debts as and when they become due and payable.

Sean O'Toole
Managing Director

LANDCOM

Gregory South
General Manager Corporate and Finance
LANDCOM

CROWN LANDS HOMESITES PROGRAM
INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2007 $'000	2006 $'000
Continuing operations			
Sales revenue		11,580	20,752
Cost of sales		(7,134)	(8,210)
Gross profit		**4,446**	**12,542**
Other Income	2	406	440
Expenses			
Marketing expenses	3	(756)	(1,341)
Other operating expenses	4	(1,927)	(7,703)
Total expenses		**(2,683)**	**(9,044)**
Net profit for the year	10	2,169	3,938

The above Income Statement is to be read in conjunction with the attached notes.

CROWN LANDS HOMESITES PROGRAM
BALANCE SHEET
AS AT 30 JUNE 2007

	Notes	2007 $'000	2006 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	11	4,514	8,378
Trade and other receivables	5	1,286	88
Inventories	6	9,293	14,153
Other	7	-	2
Total Current Assets		**15,093**	**22,621**
Non-Current Assets			
Inventories	6	18,957	13,953
Total Non-Current Assets		**18,957**	**13,953**
TOTAL ASSETS		**34,050**	**36,574**
LIABILITIES			
Current Liabilities			
Trade and other payables	8	3,224	7,807
Provisions	9	3,467	2,322
Total Current Liabilities		**6,691**	**10,129**
Non-Current Liabilities			
Trade and other payables	8	6,775	7,579
Provisions	9	153	213
Total Non-Current Liabilities		**6,928**	**7,792**
TOTAL LIABILITIES		**13,619**	**17,921**
NET ASSETS		**20,431**	**18,653**
EQUITY			
Retained earnings	10	20,431	18,653
TOTAL EQUITY		**20,431**	**18,653**

The above Balance Sheet is to be read in conjunction with the attached notes.

CROWN LANDS HOMESITES PROGRAM

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2007 $'000	2006 $'000
Cash flows from operating activities			
Receipts from customers		10,384	23,135
Interest received		13	424
Payments to suppliers and employees		(14,189)	(7,916)
Other payments		(72)	(987)
Net cash flows from/(used in) operating activities	11(b)	**(3,864)**	**14,656**
Cash flows from financing activities			
Distribution to NSW Treasury		-	(12,414)
Net cash flows from/ (used in) financing activities		**-**	**(12,414)**
Net increase/ (decrease) in cash and cash equivalents		**(3,864)**	**2,242**
Cash and cash equivalents at the beginning of period		**8,378**	**6,136**
Cash and cash equivalents at the end of period	11(a)	**4,514**	**8,378**

The above Cash Flow Statement is to be read in conjunction with the attached notes.

CROWN LANDS HOMESITES PROGRAM

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2007 $'000	2006 $'000
Total equity as at 1 July 2006		**18,653**	**25,363**
Adjustment on adoption of AASB 132 and AASB 139 to retained earnings	10	-	1,766
Restated total equity as at 1 July 2006		**18,653**	**27,129**
Profit for the period		2,169	3,938
Total income and expenses for the period		2,169	3,938
Transactions with equity holders in their capacity as equity holders:			
Distribution to NSW Treasury	10	(391)	(12,414)
Total equity as at 30 June 2007		**20,431**	**18,653**

The above Statement of Changes in Equity is to be read in conjunction with the attached notes.

The Crown Lands Homesites Program (CLHP) is a commercial activity of the Crown Entity. This activity encompasses the development and sale of residential Crown Lands Homesites. Landcom conducts this activity on behalf of the Crown Entity. The CLHP is a not-for-profit entity as profit is not its principle objective. The reporting entity is consolidated as part of the Crown Entity.

This financial report for the year ended 30 June 2007 has been authorised for issue by the Secretary of the New South Wales Treasury on 5 October 2007.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of Australian Accounting Standards, and the requirements of the "*Public Finance and Audit Act 1983*" and regulation. The financial report has also been prepared on a historical cost basis.

Judgements, key assumptions and estimations management have made are disclosed in the relevant notes to the financial report.

Sales of Land
A sale of land is determined to have occurred when the significant risks and rewards of ownerships have been transferred. This is judged to take place when the sales contract is settled.

Trade and other payables
Discount rate is based on Treasury long term bond rates to determine the fair value of long-term payable that carries no interest.

(b) Statement of Compliance

The principal accounting policies adopted in the preparation of the financial report have been consistently applied to the periods presented.

The financial report complies with the Australian Accounting Standards. A Statement of compliance with International Financial Reporting Standards cannot be made due to the Program applying the not-for-profit sector requirements contained in AEIFRS.

(c) Income Recognition

Income is measured at the fair value of the consideration or contribution received or receivable.

i Revenue from sale of land is recognised when the significant risks and rewards of ownership of the land have passed to the buyer and can be measured reliably. Specifically, with respect to property sales, the risks and rewards are considered passed to the buyer at the time of completion of the contract.

ii Interest income is recognised as the interest accrues.

iii Other income is based on the general principle that there is a right to be compensated for services rendered and it is probable that economic benefits will result and the revenue can be reliably measured.

(d) Cost of Sales

The cost of sales includes costs of land and development costs incurred in bringing the raw land to "Developed Land".

(e) Expenditure Recognition

Marketing and other operating expenses are reimbursed to Landcom under a management agreement with the New South Wales Treasury. Administration charge assessment is based on apportionment of total operating expenditure incurred by Landcom during the year on the ratio of number of lots developed and released for sale by both Landcom and Crown Lands Homesites Program.

Marketing charges are based on direct expenses except for shared advertising and promotion, which are based on the sales ratio apportionment between Crown Lands Homesites Program and Landcom.

(f) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i where the amount of GST incurred is not recoverable from the Australian Taxation Office, it is recognised as part of the cost of acquisition of an asset or as part of an expense item;

ii for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from or payable to the Australian Taxation Office is included as part of receivables or payables.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the Australian Taxation Office, are classified as operating cash flows.

Commitments and contingencies and other amounts disclosed in the financial statements are net of the amount of GST recoverable from, or payable to, the Australian Taxation Office.

(g) Inventories

Inventories comprise Developed Land for Sale, Work in Progress (Land under Development) and Undeveloped Land.

Developed land is land which has been subdivided and registered on completion of all development activity.

Work in Progress (Land under Development) represents land that has been subdivided into precincts and where development activity relating to the precinct has commenced.

Current developed Land and Work in Progress is expected to be sold within the next twelve months.

Undeveloped land consists of land holdings where no development has taken place and land holdings where estate major work activity has been undertaken. It excludes precincts on which development activity has commenced. Undeveloped land is classified as a non-current asset.

Inventories are stated at the lower of cost and net realisable value. Cost comprises cost of land and related development expenses. All direct and indirect expenditure on development are included in the relevant precincts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Financial Instruments

Financial instruments give rise to positions that are a financial asset of the Crown Lands Homesites Program and a financial liability (or equity instrument) of the other party. For Crown Lands Homesites Program these include cash, receivables and payables.

In accordance with AASB 132 "Financial Instruments: Disclosure and Presentation" information is disclosed in Note 12, in respect of the credit risk and interest rate risk of financial instruments. All such amounts are carried in the accounts at net fair value unless otherwise stated. The accounting policy for each class of financial instrument is stated hereunder.

Cash and Cash Equivalents

Cash comprises cash on hand and at the bank. Interest is earned on daily bank balances. Interest earned is credited directly to NSW Treasury's consolidated account. Interest is reported as income in the financial statements and this amount is recorded as dividend to the NSW Treasury.

Trade and Other Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables. Any changes are accounted for in the Income Statement when impaired, derecognised or through the amortisation process.

Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Interest is charged on overdue settlement monies where agreed settlement dates are not met. The rate of interest applied during the year was 11.10%. Sales are made on varying terms, but generally on a 30-day exchange and 30-day settlement basis.

Trade and Other payables

These amounts represent liabilities for goods and services provided to Crown Lands Homesites Program. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequently measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(i) Distribution to NSW Treasury

Crown Lands Homesites Program is required to return funds that are in excess of working capital to the Consolidated fund of NSW Treasury. During the year ended 30 June 2007 Crown Lands Homesites returned $0.391 million to Consolidated Fund (2006 $12.41million).

(j) Provisions

Provisions are recognised when the entity has a present legal or constructive obligation to make future sacrifice of economic benefits to other entities as a result of past transactions or past events. These provisions are recognised when it is probable that a future sacrifice of economic benefits will be required and the amount can be measured reliably.

If the time value of money is material, provisions are discounted at the pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

The unwinding of this discounting is recognised as finance costs in the income statement.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Provisions (continued)

Provision to complete projects
Provision to complete projects represent unpaid development costs and is raised as an estimate based on known costs at the time.

Provision for rebates
Provision for rebates is recognised when a lot is sold. As part of the condition of sale, the Crown Lands Homesites Program is committed to make a payment to the purchaser provided certain design criteria are met and applied for within specified period by the purchaser, usually between 18-24 months. This payment represents reimbursement for additional costs incurred by the purchaser in complying with the design criteria set by the Crown Lands Homesites Program.

(k) Accounting Standards/ Interpretations issued but not yet effective as at 30/06/2007

Australia Accounting Standards and Interpretations that have recently been issued or amened but are not yet effective have not been adopted for the annual reporting period ended 30 June 2007. These are listed as follows:

Accounting Standards or UIGs Issued but not yet effective	Impact to CLHP
AASB 7 & AASB 2005-10	Minimal impact
AASB 8 & AASB 2007-3	No impact
AASB 101	Minimal impact
AASB 123	No impact
AASB 1049	No impact
AASB 2007-4	Minimal Impact
AASB 2007-5	Minimal impact
Interpretation 4	Minimal impact
Interpretation 10	No impact
Interpretation 11 & AASB 2007-1	No impact
Interpretation 12 & AASB 2007-2	No impact
Interpretation 129	No impact

2 OTHER INCOME

	2007 $'000	2006 $'000
Forfeited sales deposits	2	15
Interest	404	424
Other	-	1
	406	**440**

3 MARKETING EXPENSES

	2007 $'000	2006 $'000
Agents' commission	346	592
Advertising and promotion	410	749
	756	**1,341**

4 OTHER OPERATING EXPENSES

	2007 $'000	2006 $'000
Estate maintenance	153	141
Management/support fee	1,142	1,187
Project costs written off	52	5,818
Interest expense	507	429
Auditor's remuneration-audit financial statements	17	18
Other contractors	2	48
Rates	8	11
Miscellaneous	46	51
	1,927	**7,703**

Management fees represent charges by Landcom for the cost of professional and corporate support services.

Project cost adjustments represent items of expense where expenditure incurred on projects was written off as land did not proceed to appropriation.

5 TRADE AND OTHER RECEIVABLES

Current		
Development bonds	170	86
Debtors	1,116	2
	1,286	**88**

6 INVENTORIES

Current		
Works in progress (at cost)	5,205	9,865
Developed land (at cost)	4,088	4,288
	9,293	**14,153**
Non-Current		
Developed land (at cost)	1,420	209
Undeveloped land (at cost)	17,537	13,744
	18,957	**13,953**
Total Land Held for Resale	**28,250**	**28,106**

Details are:		
Cost of acquisition	10,805	10,169
Development expenses capitalised	17,445	17,937
Carrying amount of the land	**28,250**	**28,106**

7. OTHER

Prepayments	-	2
	-	**2**

8 TRADE AND OTHER PAYABLES

	2007 $'000	2006 $'000
Current		
Trade payables – Treasury Crown Core	2,151	6,242
Trade payables	618	788
GST payable	57	208
Retentions	-	26
Deposits held	382	440
Accrued expenses and development costs	16	103
Total Current Liabilities	**3,224**	**7,807**
Non Current		
Trade payables – Treasury Crown Core	6,775	7,579
Total Non Current Liabilities	**6,775**	**7,579**
Total Liabilities	**9,999**	**15,386**

The Crown Core liability represents the cost of Crown Lands acquired at valuation by the Crown Lands Homesites Program. The current liability represents land expected to be sold within the next 12 months. An amount is payable to NSW Treasury on the sale of land which represents the land value component of the cost of sales.

9. PROVISIONS

	2007 $'000	2006 $'000
Current		
Provision to complete projects	3,030	1,957
Provision for rebates	418	345
Provisions other	19	20
Total Current Provisions	**3,467**	**2,322**
Non Current		
Provision for rebates	153	213
Total Non Current Provisions	**153**	**213**
Total Provisions	**3,620**	**2,535**

10. RETAINED EARNINGS

	2007 $'000	2006 $'000
Balance at the beginning of financial year	18,653	25,363
Changes in Equity – other than transactions with equity holders as equity holders		
Net profit for the year	2,169	3,938
Adjustment on adoption of AASB 132 and AASB 139	-	1,766
Change equity – Transactions with equity holders as equity holders		
Distribution to NSW Treasury	(391)	(12,414)
Balance at the end of financial year	**20,431**	**18,653**

11. CASH FLOW STATEMENT

	2007 $'000	2006 $'000
(a) For the purpose of the Cash Flow Statement, cash and cash equivalent includes cash on hand and at bank. Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:		
Cash and cash equivalent assets	4,514	8,378
Total cash and cash equivalent assets	**4,514**	**8,378**

	2007 $'000	2006 $'000
(b) Reconciliation from the net profit for the year to the net cash flows from operations:		
Net profit for the year	2,169	3,938
Non-cash interest income	(391)	-
Change in assets and liabilities		
(Increase)/ decrease in receivables	(1,196)	830
(Increase)/ decrease in inventories	(144)	10,217
Increase/(decrease) in provisions	1,085	89
Increase/(decrease) in payables	(5,387)	(418)
Net cash (used in)/provided by operating activities	**(3,864)**	**14,656**

12. FINANCIAL INSTRUMENTS

(This note is to be read in conjunction with Note 1(h))

(a) **Interest Rate Risk**

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in market interest rates. Crown Lands Homesites Program exposure to interest rate risks and the effective interest rates of financial assets and liabilities, both recognised and unrecognised at the balance date is minimal.

12. FINANCIAL INSTRUMENTS (continued)

2007 Financial instrument	Notes	Floating interest rate $'000	Non- interest-bearing $'000	Carrying amount as per the Balance Sheet $'000
Financial assets				
Cash and cash equivalent assets	11	4,514	-	4,514
Trade and other receivables	5	-	1,286	1,286
Total financial assets		**4,514**	**1,286**	**5,800**
Weighted average interest rate		4.15%		
Financial liabilities				
Trade and other payables	8	6,775	3,224	9,999
Total financial liabilities		**6,775**	**3,224**	**9,999**
Weighted average interest rate		6.41%		
Net Financial Assets / (Liabilities)		**(2,261)**	**(1.938)**	**(4,199)**

2006 Financial instrument	Notes	Floating interest rate $'000	Non- interest-bearing $'000	Carrying amount as per the Balance Sheet $'000
Financial assets				
Cash and cash equivalent assets	11	8,378	-	8,378
Trade and other receivables	5	-	88	88
Total financial assets		**8,378**	**88**	**8,466**
Weighted average interest rate		3.54%		
Financial liabilities				
Trade and other payables	8	7,579	7,807	15,386
Total Financial Liabilities		**7,579**	**7,807**	**15,386**
Weighted average interest rate		6.05%		
Net financial Assets / (Liabilities)		**799**	**(7,719)**	**(6,920)**

There are no financial instruments subject to fixed interest rates.

(b) **Credit Risk**

Credit risk is the risk of financial loss arising from another party to a contract or financial position failing to discharge a financial obligation thereunder. Crown Lands Homesites Program's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the balance sheet.

There is no significant concentration of credit risk arising in respect of receivables.

(c) **Net Fair Value**

All financial instruments are carried at Net Fair Value, unless stated otherwise.

13. EXPENDITURE COMMITMENTS

The Crown Lands Homesites Program does not have any capital or operating lease commitments (2006/07 - $nil). The total expenditure commitments contracted for at balance date but not provided for:

	2007 $'000	2006 $'000
Not later than one year	88	-
Total (including GST)	**88**	**-**

The total expenditure commitments above include input tax credits of $8,000 that are expected to be recoverable from the ATO (30 June 2006: nil).

14. CONTINGENT LIABILITIES

There may be potential unquantifiable liabilities under Native Title and Aboriginal Land Rights legislation, which result from actions taken in the development and sale of Crown land.

15. POST BALANCE SHEET EVENTS

There have been no material post balance sheet events which would require disclosure or adjustments to the 30 June 2007 Financial Statements.

End of Audited Financial Statements

New South Wales
TREASURY

Land Development Working Account

Financial Report
for the year ended
30 June 2007

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Land Development Working Account

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Land Development Working Account (the Entity), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of recognised income and expense and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Land Development Working Account as of 30 June 2007, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

Secretary of NSW Treasury Responsibility for the Financial Report

The Secretary of NSW Treasury is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Secretary, NSW Treasury, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Entity,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Independence

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

S R Stanton
Director, Financial Audit Services

5 October 2007
SYDNEY

LAND DEVELOPMENT WORKING ACCOUNT

Pursuant to Section 41C of the *Public Finance and Audit Act* 1983 and clause 11 of *the Public Finance and Audit Regulation 2005*, I declare that in my opinion:

(a) the accompanying financial report exhibits a true and fair view of the financial position of the Land Development Working Account at 30 June 2007 and the financial performance for the year then ended; and

(b) the financial report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005* and the Treasurer's Directions.

Further I am not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.

Ian Neale
Acting Secretary
02 October 2007

LAND DEVELOPMENT WORKING ACCOUNT

Adoption of Financial Report for the year ended 30 June 2007

The attached financial report of the Land Development Working Account has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005* and the Treasurer's Directions.

Pursuant to the *Public Finance and Audit Act 1983*, it is recommended that:

1. the financial report for the year ended 30 June 2007 be adopted; and

2. the Secretary of the Treasury provide a statement to the effect that:

   (a) in his opinion the accompanying financial report exhibits a true and fair view of the financial position of the Land Development Working Account as at 30 June 2007 and of the financial performance for the year ended 30 June 2007;
   (b) the financial report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005* and the Treasurer's Directions; and
   (c) that he is not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.

Kimberley Taylor
Financial Controller
Department of Lands
26 September 2007

Bob Costello
Director Finance and Corporate Support
Department of Lands
26 September 2007

LAND DEVELOPMENT WORKING ACCOUNT

Income Statement
For the year ended 30 June 2007

	Notes	2007 $'000	2006 $'000
Revenue	2	19,537	21,060
Cost of sales	3(a)	(7,155)	(9,503)
Gross Profit		**12,382**	**11,557**
Administration Expenses		1,058	884
Marketing Expenses		67	45
Other Expenses		601	949
	3(b)	**1,726**	**1,878**
PROFIT FOR THE YEAR		**10,656**	**9,679**

The accompanying notes form part of these financial statements.

LAND DEVELOPMENT WORKING ACCOUNT

Balance Sheet
As at 30 June 2007

	Notes	2007 $'000	2006 $'000
Current Assets			
Cash and cash equivalent	4	26,091	18,107
Trade and other receivables	5	19	67
Inventories	6	3,460	3,105
Total Current Assets		**29,570**	**21,279**
Non-current Assets			
Inventories	6	3,733	3,542
Property, plant and equipment	7	11	-
Total Non-current Assets		**3,744**	**3,542**
TOTAL ASSETS		**33,314**	**24,821**
Current Liabilities			
Trade and other payables	8	4,056	2,570
Contribution payable	9	9,000	6,500
Other	10	9,164	6,313
Total Current Liabilities		**22,220**	**15,383**
TOTAL LIABILITIES		**22,220**	**15,383**
NET ASSETS		**11,094**	**9,438**
Equity			
Retained earnings	12	11,094	9,438
TOTAL EQUITY		**11,094**	**9,438**

The accompanying notes form part of these financial statements.

LAND DEVELOPMENT WORKING ACCOUNT

Statement of Recognised Income and Expense
For the year ended 30 June 2007

	Notes	2007 $'000	2006 $'000
Total Income and Expense recognised Directly in Equity		-	-
Profit for the year	12	10,656	9,679
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR		**10,656**	**9,679**
EFFECT OF CHANGES IN ACCOUNTING POLICY			
Increase / (Decrease) in opening retained earnings - Adjustment on adoption of AASB 139	12	-	273

The accompanying notes form part of these financial statements.

LAND DEVELOPMENT WORKING ACCOUNT

Cash Flow Statement
For the year ended 30 June 2007

	Notes	2007 $'000	2006 $,000
Cash flows from operating activities			
Receipts from customers		28,701	29,913
Payments to suppliers		(14,204)	(21,450)
Net cash provided by / (used in) operating activities	11(b)	**14,497**	**8,463**
Cash Flows from investing activities			
Purchases of fixed assets		(13)	-
Net Cash used in investing activities		**(13)**	**-**
Cash flows from financing activities			
Distribution to NSW Treasury		(6,500)	(28,000)
Repayment of Working Capital Advance		-	(3,000)
Net cash used in financing activities		**(6,500)**	**(31,000)**
Net (Decrease) / Increase in cash and cash equivalent		**7,984**	**(22,537)**
Cash and cash equivalent at the beginning of the financial year		18,107	40,644
CASH AND CASH EQUIVALENT AT THE END OF THE FINANCIAL YEAR	11 (a)	**26,091**	**18,107**

The accompanying notes form part of these financial statements.

LAND DEVELOPMENT WORKING ACCOUNT

Notes to the Financial Statements
For the year ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Land Development Working Account (LDWA) is a Crown Entity commercial activity, undertaking the development and sale of Crown land for residential purposes in country New South Wales and for commercial purposes on a State wide basis. All Crown land sold by the LDWA, either as vacant or developed lots, is deemed to have been acquired initially by the LDWA from the Crown Leaseholds Entity. The LDWA operates in New South Wales, Australia. The office is located at Level 4, 1 Prince Albert Road, Queens Square, Sydney NSW 2000. These activities, administered by the Department of Lands on behalf of the Crown Entity are reported separately from the Department of Lands operational activities, in accordance with Treasury policy.

LDWA is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The LDWA is consolidated as part of the Crown Entity and the NSW Total State Sector Accounts.

The financial report was authorised for issue by the Secretary of NSW Treasury on the date the accompanying statement by the Secretary was signed.

(b) Basis of preparation

LDWA's financial report is a general purpose financial report which has been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AEIFRS) and Interpretations; and
- the *Public Finance and Audit Act 1983* and Regulation.

The financial report has been prepared on an accrual basis and is based on historical cost, unless stated otherwise. All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

Significant accounting judgements, estimates and assumptions

In the application of AEIFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised, if the revision affects only that period, or in the period of the revision and future periods if it affects both current and future periods.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued)*

(c) Significant accounting judgements, estimates and assumptions (continued)

Two of the key judgements and estimations affecting LDWA's financial report are set out below:

i. **Property Realisable Value** – Property held for resale is stated at the lower of cost and net realisable value. Registered valuers are engaged in determining the realisable value of property where there is an indication that the net realisable value may have fallen below cost.

ii. **Sale of Land** – A sale of land is determined to have occurred when the significant risks and rewards of ownership have been transferred. This is judged to take place when the sales contract is settled. Refer Note 1(e).

(d) Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include AEIFRS.

The following new Accounting Standards and Interpretations, that have been issued but are not yet effective, have not been adopted for the annual reporting period ending 30 June 2007:

- AASB 7 *Financial Instruments: Disclosures* (issued August 2005)
- AASB 101 *Presentation of Financial Statements* (issued October 2006)
- AASB 123 *Borrowing Costs* (issued June 2007)
- AASB 1049 *Financial Reporting of General Government Sectors by Governments* (issued September 2006)
- AASB 2005-10 *Amendments to Australian Accounting Standards* (issued September 2005)
- AASB 2007-01 *Amendments to Australian Accounting Standards arising from AASB Interpretation 11* (issued February 2007)
- AASB 2007-04 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments* (issued April 2007)
- AASB 2007-05 *Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities* (issued May 2007)
- AASB 2007-06 *Amendments to Australian Accounting Standards arising from AASB 123* (issued June 2007)
- AASB 2007-07 *Amendments to Australian Accounting Standards* (issued June 2007)
- AASB Interpretation 4 *Determining whether an Arrangement contains a Lease* (issued February 2007)
- AASB Interpretation 10 *Interim Financial Reporting and Impairment* (issued September 2006)
- AASB Interpretation 11 *AASB 2 – Group and Treasury Share Transactions* (issued February 2007)
- AASB Interpretation 12 *Service Concession Arrangements* (issued February 2007)
- AASB Interpretation 129 *Service Concession Arrangements: Disclosures* (issued February 2007)

The application of these standards will not have a material impact on the entity's financial report.

Notes to the Financial Statements
For the year ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued)*

(e) Revenue from sale of land

Revenue from the sale of land is recognised on settlement when LDWA transfers the significant risks and rewards of ownership of the assets. A 10% deposit of the sale price is normally paid on the date of exchange of contract and is recognised as a liability until the settlement of the sale.

(f) Sale of surplus land controlled by other government agencies

LDWA acts as an agent for other government agencies in regard to the sale of surplus Crown land. After deducting LDWA's selling expenses, the proceeds from the sale are remitted to the selling government agency, which is responsible for transferring any Crown share of proceeds to the Consolidated Fund. These proceeds are therefore not recognised as revenue in this financial report.

(g) Cost of sales

The cost of sales includes the cost of land and direct development expenses.

(h) Employee related expenses

LDWA has no employees. All LDWA's human resources are provided by the Department of Lands on a fee for services rendered basis. This fee includes employee related costs (salaries, superannuation, leave entitlements, payroll tax and workers' compensation insurance) and administration costs.

(i) Inventories - property held for resale

Inventories are stated at the lower of cost and net realisable value. Cost comprises cost of land and related development expenses. All direct expenditures and appropriate overhead on development are charged to the relevant projects. Inventories include development projects at different stages of completion and some parcels of unallocated Crown land awaiting settlement.

Crown land transferred to LDWA is currently accounted for as follows:

i. **Land acquired by LDWA for sale as vacant land**
The acquisition of vacant land is recognised initially as inventory with a corresponding liability to the Crown Leaseholds Entity. The value of the land is measured at the cost of acquisition from the Crown Leaseholds Entity. Payment of the liability owing to the Crown Leaseholds Entity occurs at the time of settlement. The liability that is owed to the Crown Leaseholds Entity is non interest bearing.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued)*

(i) Inventories - property held for resale (continued)

ii. Land acquired by LDWA for sale as developed land

The acquisition of land is recognised initially as inventory with a corresponding liability to the Crown Leaseholds Entity at the time the decision is made to develop the land. The value of the land is measured at fair value on acquisition as determined by registered valuers. Payment of the liability owing to the Crown Leaseholds Entity occurs at the time of settlement. The liability that is owed to the Crown Leaseholds Entity is non interest bearing.

(j) Acquisition of Fixed Assets

The cost method of accounting is used for the initial recording of all acquisition of assets controlled by the entity. Cost is determined as the amount of cash paid or fair value of other consideration given, plus costs incidental to the acquisition.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenue at their fair value at the date of acquisition.

Fair value is the amount for which an asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller, in an arm's length transaction.

(k) Capitalisation Threshold

Plant and equipment costing $5,000 and above are capitalised. Individual items of computer equipment costing $1,000 and above are capitalised when they form part of a network.

(l) Revaluation of Physical Non-Current Assets

Physical non-current assets are valued in accordance with the "Valuation of Physical Non-Current Assets at Fair Value" (TPP 07-1). This policy adopts fair value in accordance with AASB 116 *Property, Plant and Equipment* and AASB *140 Investment Property*.

Property, plant and equipment is revalued at least once every five years or with sufficient regularity to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as a surrogate for fair value.

Notes to the Financial Statements
For the year ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued)*

(m) Depreciation

Depreciation is provided for on a straight line basis against all depreciable assets, so as to write off the depreciable amount of each depreciable asset, as it is consumed over its useful life per *AASB 116 – Property, Plant and Equipment*.

Depreciation Rates:

Plant and Equipment	20%

(n) Cash and cash equivalents

Cash comprises cash on hand and bank balances within the Treasury Banking System. Interest accrued on daily bank balances at the monthly average NSW Treasury Corporation 11am unofficial cash rate adjusted for a management fee, is paid directly to NSW Treasury and not reported in the financial statements.

(o) Receivables

All trade receivables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less any impairment of receivables. Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial. An allowance for impairment is established when there is objective evidence that the entity will not be able to collect all amounts due. Bad debts are written off as incurred.

(p) Payables

These amounts represent liabilities for goods and services provided to LDWA and other amounts, including interest.

Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Notes to the Financial Statements
For the year ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Accounting for the Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except for:

- the amount of GST incurred by LDWA as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the acquisition cost of an asset, or as part of an item of expense;
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to the taxation authority, is included as part of receivables or payables.

(r) Contributions to NSW Treasury

LDWA is required to return funds in excess of working capital to the Consolidated Fund of NSW Treasury. Excess funds for the current period are transferred to contribution payable and paid in the following financial year.

2. REVENUE

	2007 $'000	**2006 $'000**
Proceeds from sale of land (Note 1(e))	27,695	28,154
Less:		
Land sold on behalf of other government agencies (Note 1(f))	(8,158)	(7,094)
Net revenue from sale of land	**19,537**	**21,060**
Detailed as follows:		
Developed land	2,684	3,894
Vacant land	14,550	14,580
Land sold to NSW government agencies	2,044	2,023
Other revenue	259	563
	19,537	**21,060**

LAND DEVELOPMENT WORKING ACCOUNT

Notes to the Financial Statements
For the year ended 30 June 2007

3. COST OF SALES

(a) Cost of Sales (Note 1 (g))

	2007 $'000	2006 $'000
Cost of Land	6,899	6,906
Development costs	256	2,597
	7,155	**9,503**

(b) Expenses

	2007 $'000	2006 $'000
Administration Expenses		
Auditor's remuneration	3	15
Fees for services rendered	1,055	869
	1,058	**884**
Marketing Expenses		
Stores	-	6
Travelling and motor running expenses	9	8
Advertising	58	31
	67	**45**
Other Expenses		
Consultancy	29	18
Commissions to real estate agents	193	97
Contractors	347	290
Interest expense – amortisation	-	273
Depreciation	2	
Other	30	271
	601	**949**
Total Expenses	**1,726**	**1,878**

The method of accounting for Auditors remuneration was changed in 2006/07 from previously accepted practice of expensing total audit fees in the financial year under review, to expensing the fee when service is actually provided. This change resulted in a reduced expense being reported for 2006/07. The total audit fee for the 2006/07 Financial Report is $15,200 (2005/06 - $15,000)

4. CASH AND CASH EQUIVALENTS

	2007 $'000	2006 $'000
Cash at bank	**26,091**	**18,107**

Notes to the Financial Statements
For the year ended 30 June 2007

5. TRADE AND OTHER RECEIVABLES

	2007 $'000	2006 $'000
Debtors	74	67
Provision for Doubtful Debts	(55)	-
	19	**67**

6. INVENTORIES

	2007 $'000	2006 $'000
Land held for resale – At Cost		
Current	3,460	3,105
Non-current	3,733	3,542
	7,193	**6,647**
Land held for resale – At Cost		
Acquisition Cost – Land	5,733	5,256
Direct Development expenses capitalised (Work-in-Progress)	1,460	1,391
Carrying amount	**7,193**	**6,647**

The basis of inventory valuation is set out in note 1(i).

7. PLANT AND EQUIPMENT

	Plant and Equipment $'000	Total $'000
At 1 July 2006		
At Fair Value	-	-
Accumulated depreciation and impairment	-	-
Net Carrying Amount	-	-
At 30 June 2007		
At Fair Value	13	13
Accumulated depreciation and impairment	(2)	(2)
Net Carrying Amount	**11**	**11**

LAND DEVELOPMENT WORKING ACCOUNT

Notes to the Financial Statements
For the year ended 30 June 2007

7. PLANT AND EQUIPMENT (*Continued)*

Reconciliation

Reconciliation of the carrying amounts of plant and equipment at the beginning and end of the financial year is set out below:

	Plant and Equipment $'000	Total $'000
Year ended 30 June 2007		
Net carrying amount at start of year	-	-
Addition	13	13
Disposal	-	-
Depreciation expense	(2)	(2)
Net carrying amount at end of year	**11**	**11**

8. TRADE AND OTHER PAYABLES

	2007 $'000	2006 $'000
Due to other government agencies (Note 1(f))	2,649	1,305
Creditors	1,066	319
Prepaid income	341	946
	4,056	**2,570**

9. CONTRIBUTIONS PAYABLE

Contributions to the NSW Treasury (Note 1(r))		
Balance at 1 July	6,500	28,000
Payments made during the year	(6,500)	(28,000)
Provided during the year	9,000	6,500
Balance at 30 June	**9,000**	**6,500**

The balance in this account is the excess of working capital that will be remitted to Consolidated Fund of the NSW Treasury during the next financial year.

Notes to the Financial Statements
For the year ended 30 June 2007

10. CURRENT LIABILITIES - OTHER

	2007 $'000	2006 $'000
Amount due to the Crown Leaseholds Entity		
Balance at 1 July	6,313	11,157
Value of land transferred in	7,376	3,240
Payments made during the year	(4,525)	(8,084)
Balance at 30 June	**9,164**	**6,313**

11. NOTES TO CASH FLOW STATEMENT

(a) Reconciliation of cash and cash equivalents

For the purpose of the Cash Flow Statement, cash includes cash held in bank. Cash and cash equivalent at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

Cash at bank	**26,091**	**18,107**

(b) Reconciliation of profit for the year to net cash flows from operating activities

Profit for the year	**10,656**	**9,679**
Adjustment for non-cash item		
Interest expense amortisation	-	273
Depreciation	2	-
Movement in assets and liabilities		
Decrease/(Increase) in Receivables	48	634
(Increase)/Decrease Inventories	(546)	5,378
Increase/(Decrease) in Payables	1,486	(2,657)
Increase/(Decrease) in Other Liabilities	2,851	(4,844)
Net cash flows from operating activities	**14,497**	**8,463**

Notes to the Financial Statements
For the year ended 30 June 2007

12. EQUITY

	2007 $'000	2006 $'000
Balance at the beginning of the year	**9,438**	**5,986**
AASB 139 first-time adoption	-	273
Restated opening balance	**9,438**	**6,259**
Changes in Equity - transactions with owners as owners		
Distribution to the NSW Treasury	(9,000)	(6,500)
Changes in Equity - other than transactions with owners as owners		
Profit for the year	10,656	9,679
Balance at the end of the year	**11,094**	**9,438**

13. CONTINGENT LIABILITIES AND COMMITMENTS

In March 2004 the Land and Environment Court directed the Minister Assisting the Minister for Natural Resources (Lands) to acquire a parcel of land owned by Nedoni Pty Ltd. The land is located at Byron Bay. It is intended that the Minister for Lands will acquire the parcel of land on behalf of the Crown. The potential liability to LDWA has been estimated at approximately $1 million, being the land value and other costs of acquisition. Due to unresolved issues concerning the amount of land to be acquired, a reliable land valuation estimate could not be determined at this stage and a liability has therefore not been recognised.

14. NATIVE TITLE

Under the provisions of the Commonwealth's *Native Title Act 1993* claims may be lodged in respect of land currently held as inventories. However, inventories are not offered for sale until such time as Native Title interests are extinguished through compulsory acquisitions or the granting of a non-claimant application by the Native Title Tribunal. The nature and value of possible claims, under the provisions of the Native Title legislation, are complex issues and are not directly related to the inventory value disclosed in the financial report. Any future compensation claim which might arise under the Native Title legislation in regard to land disposals is accepted by the Crown rather than LDWA. Therefore, there is no impact on the value of inventories disclosed in the financial report.

Notes to the Financial Statements
For the year ended 30 June 2007

15. FINANCIAL INSTRUMENTS

Financial instruments give rise to positions that are both a financial asset of one entity and a financial liability (or equity instrument) of the other party. For the Entity, these include cash, receivables, payables and others. All such amounts are carried at amounts which approximate fair value unless otherwise stated.

(a) Interest rate risk

Interest rate risk is the risk that the value of the instruments will fluctuate due to changes in market interest rates. LDWA's exposure to interest rate risk and the weighted average effective interest rates of financial assets and liabilities at the balance date are as follows:

	Weighted Average effective interest rate	Floating Interest rate	Non-interest Bearing	Total carrying Amount
	%	$'000	$'000	$'000
30 June 2007				
Financial Assets				
Cash and cash equivalent	5.65	26,091	-	26,091
Trade and Other Receivables	-	-	19	19
Total	-	**26,091**	**19**	**26,110**
Financial Liabilities				
Trade payables	-	-	4,056	4,056
Other – Amount due to Crown Entity	-	-	9,164	9,164
Total	-	**-**	**13,220**	**13,220**
30 June 2006				
Financial Assets				
Cash and cash equivalent	5.04	18,107	-	18,107
Trade and Other Receivables	-	-	67	67
Total	-	**18,107**	**67**	**18,174**
Financial Liabilities				
Trade payables	-	-	2,570	2,570
Other – Amount due to Crown Entity	-	-	6,313	6,313
Other - Treasury advance	-	-	-	-
Total	-	**-**	**8,883**	**8,883**

15. FINANCIAL INSTRUMENTS *(continued)*

(b) Cash and cash equivalents

Cash comprises cash on hand and bank balances within the Treasury Banking System. Interest accrued on daily bank balances at the monthly average NSW Treasury Corporation 11am unofficial cash rate adjusted for a management fee, is paid directly to NSW Treasury and not reported in the financial statements.

(c) Receivables

All trade debtors are recognised as amounts receivable at balance date. The ability to collect trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. The credit risk is the carrying amount (net of any allowance for impairment). No interest is earned on trade debtors. The carrying amount approximates fair value.

(d) Trade Creditors and Accruals

The Liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer's Direction 219.01. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. Treasurer's Direction 219.01 allows the Minister to award interest for late payment.

(e) Credit Risk

Credit risk is the risk of financial loss arising from another party to a contract or financial position failing to discharge a financial obligation thereunder. LDWA's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Balance Sheet.

16. AFTER BALANCE DATE EVENTS

There are no after balance date events.

End of Audited Financial Report

New South Wales
TREASURY

Crown Leaseholds

Financial Report
for the year ended
30 June 2007

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

CROWN LEASEHOLDS ENTITY

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Crown Leaseholds Entity (the Entity), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of recognised income and expense and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Crown Leaseholds Entity as of 30 June 2007, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

Secretary of NSW Treasury Responsibility for the Financial Report

The Secretary of NSW Treasury is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Secretary, NSW Treasury, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Entity,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Independence

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

S R Stanton
Director, Financial Audit Services

5 October 2007
SYDNEY

CROWN LEASEHOLDS ENTITY

Pursuant to Section 41C of the *Public Finance and Audit Act 1983* and clause 11 of the *Public Finance and Audit Regulation 2005*, I declare that in my opinion:

(a) the accompanying financial report exhibits a true and fair view of the financial position of the Crown Leaseholds Entity for the year ended 30 June 2007 and the financial performance for the year then ended; and

(b) the financial report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005*, Treasurer's Directions and Australian Accounting Standards.

Further I am not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.

Ian Neale
Acting Secretary
03 October 2007

CROWN LEASEHOLDS ENTITY

Adoption of Financial Report for the year ended 30 June 2007

The attached financial report of the Crown Leaseholds Entity has been prepared in accordance with the provisions of the *Public Finance and Audit Act* 1983, the *Public Finance and Audit Regulation* 2005 and the Treasurer's Directions.

Pursuant to the *Public Finance and Audit Act* 1983, it is recommended that:

1. the financial report for the year ended 30 June 2007 be adopted; and

2. the Secretary of the Treasury provide a statement to the effect that:

    (a) in his opinion the accompanying financial report exhibits a true and fair view of the financial position of the Crown Leaseholds Entity at 30 June 2007 and of the financial performance for the year ended 30 June 2007;
    (b) the financial report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005* and the Treasurer's Directions; and
    (c) that he is not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.

Kimberley Taylor
Financial Controller
Department of Lands
26 September 2007

Bob Costello
Director Finance and Corporate Support
Department of Lands
26 September 2007

CROWN LEASEHOLDS ENTITY

Income Statement
For the year ended 30 June 2007

	Notes	2007 $'000	2006 $'000
Revenue	2(a)	43,902	38,255
Other revenue	2(b)	35,059	5,829
Expenses	4	(2,556)	(2,249)
Loss on disposal	3(a)	(31,349)	(36,582)
Other Losses	3(b)	(40,374)	(38,447)
Profit/(loss) for the year	13	**4,682**	**(33,194)**

The accompanying notes form part of these financial statements.

CROWN LEASEHOLDS ENTITY

Balance Sheet
As at 30 June 2007

	Notes	2007 $'000	2006 $'000
Current Assets			
Cash and cash equivalents	5	12,671	12,500
Trade and other receivables	6	24,318	17,518
Total Current Assets		**36,989**	**30,018**
Non-Current Assets			
Trade and other receivables	7	22,708	23,402
Property, Plant and Equipment	8	6,155,335	5,773,265
Total Non-current Assets		**6,178,043**	**5,796,667**
TOTAL ASSETS		**6,215,032**	**5,826,685**
Current Liabilities			
Trade and other payables	9	3,420	6,192
Other	10	23,359	24,054
Total Current Liabilities		**26,779**	**30,246**
Non-Current Liabilities			
Other	11	1,009,359	1,024,762
Total Non-Current Liabilities		**1,009,359**	**1,024,762**
TOTAL LIABILITIES		**1,036,138**	**1,055,008**
NET ASSETS		**5,178,894**	**4,771,677**
Equity			
Retained earnings	13	2,613,028	2,675,966
Reserves	13	2,565,866	2,095,711
TOTAL EQUITY		**5,178,894**	**4,771,677**

The accompanying notes form part of these financial statements.

CROWN LEASEHOLDS ENTITY

Statement of Recognised Income and Expense
For the year ended 30 June 2007

	Notes	2007 $'000	2006 $'000
Net asset revaluation increments		519,227	152,787
Total Income and Expense recognised directly in Equity	13	**519,227**	**152,787**
Profit/(Loss) for the year	13	4,682	(33,194)
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR		**523,909**	**119,593**
EFFECT OF CHANGES IN ACCOUNTING POLICY & CORRECTION OF ERRORS			
Increase / (Decrease) in opening retained earnings			
- Adjustment on adoption of AASB 139	13	-	(10)
- Adjustment of ALC claim expenses Prior Years	13	-	(1,015,446)

The accompanying notes form part of these financial statements.

CROWN LEASEHOLDS ENTITY

Cash Flow Statement
For the year ended 30 June 2007

	Notes	2007 $'000	2006 $'000
Cash flows from operating activities			
Receipts from customers		28,550	34,384
Interest received		2,319	2,576
Other receipts		5,290	3,876
Net Cash provided by operating activities	15	**36,159**	**40,836**
Cash flows from investing activities			
Proceeds from sale of unallocated Crown Land		18,810	24,152
Net Cash provided by investing activities		**18,810**	**24,152**
Cash flows from financing activities			
Distribution to NSW Treasury	12	(54,798)	(61,152)
Net Cash used in financing activities		**(54,798)**	**(61,152)**
Net increase/(decrease) in cash and cash equivalents		171	3,836
Cash and cash equivalents at the beginning of the financial year		12,500	8,664
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	5	**12,671**	**12,500**

The accompanying notes form part of these financial statements.

CROWN LEASEHOLDS ENTITY

Notes to the Financial Statements
For the year ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Crown Leaseholds Entity (CLE) is the entity that reports the value of unallocated Crown land. It collects installments relating to the purchase of unallocated Crown land and generates revenue from leases, licences and permissive occupancies of Crown land. The CLE's activities are administered by the Department of Lands. The leases and rentals in the Western Division under *Western Lands Act 1901 No 70* and *Western Lands Amend Act 2002 No 68* were administered by DNR until 26 April 2007 and then by Department of Lands from 27 April 2007 as published in NSW Government Gazette No 56 folio 2345.

The CLE's account is reported separately from the Department of Land's operational activities in accordance with NSW Treasury policy to reflect that:

- the ownership of the Crown Estate rests with the Crown; and
- revenue generated from the ownership of the Crown Estate is of a regulatory nature under the control of the Crown.

The CLE's financial report is consolidated as part of the Crown Entity and the NSW Total State Sector Accounts.

The financial report was authorised for issue by the Secretary of NSW Treasury on the date the accompanying statement by the Secretary was signed.

(b) Basis of Preparation

The CLE's financial report is a general purpose financial report which has been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AEIFRS) and Interpretations; and
- the *Public Finance and Audit Act 1983* and Regulation.

The financial report has been prepared on an accrual basis and is based on historical costs with the exception of property, plant and equipment, which have been measured at fair value and certain financial assets and liabilities, which are measured at either fair value or amortised cost.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

(c) Significant accounting judgements, estimates and assumptions

In the application of AEIFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods in the revision affects both current and future period.

The CLE has entered into land leases on its leasehold land. The CLE has determined that it retains all the significant risks and rewards of ownership of these leasehold lands and has thus classified the leases as operating leases.

(d) Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include AEIFRS.

The following new Accounting Standards and Interpretations, that have been issued but are not yet effective, have not been adopted for the annual reporting period ending 30 June 2007:

- AASB 7 *Financial Instruments: Disclosures* (issued August 2005)
- AASB 101 *Presentation of Financial Statements* (issued October 2006)
- AASB 123 *Borrowing Costs* (issued June 2007)
- AASB 1049 *Financial Reporting of General Government Sectors by Governments* (issued September 2006)
- AASB 2005-10 *Amendments to Australian Accounting Standards* (issued September 2005)
- AASB 2007-01 *Amendments to Australian Accounting Standards arising from AASB Interpretation 11* (issued February 2007)
- AASB 2007-04 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments* (issued April 2007)
- AASB 2007-05 *Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities* (issued May 2007)
- AASB 2007-06 *Amendments to Australian Accounting Standards arising from AASB 123* (issued June 2007)
- AASB 2007-07 *Amendments to Australian Accounting Standards* (issued June 2007)
- AASB Interpretation 4 *Determining whether an Arrangement contains a Lease* (issued February 2007)
- AASB Interpretation 10 *Interim Financial Reporting and Impairment* (issued September 2006)
- AASB Interpretation 11 *AASB 2 – Group and Treasury Share Transactions* (issued February 2007)
- AASB Interpretation 12 *Service Concession Arrangements* (issued February 2007)
- AASB Interpretation 129 *Service Concession Arrangements: Disclosures* (issued February 2007)
- AASB Interpretation 11 *AASB 2 – Group and Treasury Share Transactions* (issued February 2007)
- AASB Interpretation 12 *Service Concession Arrangements* (issued February 2007)
- AASB Interpretation 129 *Service Concession Arrangements: Disclosures* (issued February 2007)

The application of these standards will not have a material impact on the CLE's financial report.

(e) Revenue Recognition

Revenue is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of revenue are discussed below:

i. **Interest revenue**
Interest is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement.*

ii. **Revenue from leases and permissive occupancies**
Rental is recognised in accordance with AASB 117 *Leases* on a straight-line basis over the lease term.

iii. **Royalty revenue**
Royalty is recognised in accordance with AASB 118 *Revenue* on an accrual basis in accordance with the substance of the relevant agreement.

(f) Administration Costs

The cost of administering the Crown Estate is borne by the Department of Lands and the Department of Natural Resources (DNR) and is, therefore, not reflected in the financial report.

The audit fee paid to the Audit Office by the CLE for audit of the financial report for the year ended 30 June 2006 was $47,000. The total audit fee payable for the audit of the financial report for the year ended 30 June 2007 is $63,000 with $13,000 paid to date. These costs are reflected in the financial statements of the CLE.

(g) Accounting for the Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except for:

- the amount of GST incurred by CLE as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the acquisition cost of an asset, or as part of an item of expense;
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to, the Australian Tax Office, are classified as operating cash flows.

Commitments and contingencies and other amounts disclosed in the financial statements are net of the amount of GST recoverable from, or payable to, the Australian Tax Office.

(h) Acquisition of Assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the CLE. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Where payment for an item is deferred beyond normal credit terms, its cost is the cash price equivalent, i.e. the deferred payment amount is effectively discounted at an asset-specific rate.

(i) Reservation of Crown Land

Pursuant to Section 87 of the *Crown Lands Act 1989*, all the Crown land in the Eastern and Central Divisions of the State (including the New South Wales land on the continental shelf within the 3 Nautical Mile Zone) that was not within a reserve or part of any holding, was reserved under reserve No. R1011448 for the public purpose of future public requirement as gazetted on 31 March 2006. To facilitate administration of those parcels, action was taken for land within reserve No. 1011448 to be further allocated to separate reserves within each Parish in the Eastern and Central Divisions of the State as gazetted on 29 June 2007. These lands continue to be referred to, classified and valued as Unallocated Crown Land.

(j) Revaluation of Property, Plant and Equipment

Crown land that is within the CLE is valued in accordance with the NSW Treasury policy TPP 07-1 *Valuation of Physical Non-Current Assets at Fair Value*. This policy adopts fair value in accordance with AASB 116 *Property, Plant and Equipment.*

i. Leasehold Land

Leasehold land, which is re-valued annually and includes perpetual leases, term leases, permissive occupancies and enclosure permits, was independently re-valued in March 2007 by the Valuation Services Division within Land and Property Information NSW (LPI) at fair value in accordance with the current requirements in AASB 116. The revaluation was done as at 30 June 2007. The LPI valuers determined that there was no change to values from 01 July 2006 to 30 June 2007. As a result, the value of Leasehold Land was adjusted as at 01 July 2006 to reflect the revaluation and the land value as at 30 June 2007 remained unchanged.

The CLE's interest in the leasehold land is limited by the existence of leases which in many cases will deny the CLE occupancy of the land for many years or even in perpetuity. The CLE's interest in these leases is generally limited to the right to receive the income stream from the rentals combined with (in the case of term leases) the present value of the market value of the land deferred for the term of the lease. Consequently, the basis of valuation is the capitalisation of the income stream from the different classifications of land within each local government area, appropriately taking into account the conditions attaching to the leases. The method of valuation utilised mass valuation techniques.

In prior years, the land was re-valued by capitalising rental revenue by an average rate of 4.97% irrespective of the category of tenure or the location of the tenure within the State. Through enhancements to the Crown Lands Information Database, re-valuations are now more precise as the land value within each local government area (LGA) will be calculated at the appropriate LGA/Category figure which will be adjusted annually. The capitalisation rates for 2006/07 range from 2% to 12%.

The increment/decrement on the annual revaluation of the future rental revenue is credited/debited to the asset revaluation reserve.

The balance in this reserve represents an accumulation of various effects, which cannot be individually measured:

- Increase in rentals and annual CPI based rental increases;
- New leases and licenses granted over unallocated Crown land and identification of further chargeable occupancies; and
- Movements in leaseholds occurring upon conversion to freehold.

ii. Unallocated Crown land

Unallocated Crown land represents all parcels of Crown land not included in the leasehold estate. This land, which includes unallocated Crown land, Crown reserves with no formal trust in place, certain Crown Roads and New South Wales land on the continental shelf within the 3 Nautical Mile Zone was independently valued in March 2007 by the Valuation Services Division within LPI at fair value in accordance with the requirements of AASB 116 *Property, Plant and Equipment*. The revaluation was done as at 30 June 2007.

The LPI valuers determined that there was no change to values from 01 July 2006 to 30 June 2007. As a result, the value of Leasehold Land was adjusted as at 01 July 2006 to reflect the revaluation and the land value as at 30 June 2007 remained unchanged.

The valuation method adopted was the valuation of each land type on a rate per hectare basis for each council area (LGA). The land was valued at the highest and best use taking into account zoning and other restrictions, access to services and infrastructure and property market demand.

These value elements were considered in a global way when formulating a value level to apply to the particular land type. The rates per hectare for each land type were determined following a consideration of sales of comparable land in the locality. Where significantly different classes of land were identified these were accounted for in compiling the overall rate per hectare for the land class.

The determination of global rates per hectare for a variety of land classifications for each LGA is considered the most appropriate approach to determine a value for unallocated Crown land. This methodology has the advantages of being a practical way to cost effectively arrive at a market based value for lands for which the CLE holds the full interest.

In June 2006, the Chief Valuer at Valuation Services within Land and Property Information NSW advised that on a reasonable basis, the value of unallocated Crown land had increased by 30% ($1.137 billion) since 2002. Given this advice, management adjusted the value of unallocated Crown land upwards by $1.137 billion against the asset revaluation reserve effective 1 July 2004.

The adjustment was made with effect from that date on the basis that the major movement in land values occurred prior to that date. The re-valued amount for unallocated Crown land has been used in calculating the gain or loss on disposal of unallocated Crown land on or after 1 July 2004.

Underlying the definition of 'fair value' is a presumption that the CLE is a going concern without any intention or need to liquidate or otherwise wind up its operations or undertake a transaction on adverse terms. Similarly, it is assumed that the asset is exchanged after an adequate period of marketing to obtain its best price.

Unallocated Crown land revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised in the income statement, the increase is recognised in the income statement.

Unallocated Crown land revaluation decrements are recognised immediately in the profit or loss, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect to that class of assets, decrements are debited directly to the asset revaluation reserve.

As a not-for-profit entity, revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

Some minor infrastructure, such as minor dams, sit on the unallocated Crown land. As these items do not generate any future economic benefit to the CLE they are included in the unallocated Crown land valuation and therefore are not recognised as separate assets.

It is likely that some parcels of unallocated Crown land may have been contaminated at some stage in the past. The Department of Lands has recently identified at least 490 sites on Crown land which are likely to be contaminated to some degree. Work is still to be undertaken to determine the nature and extent of any such contamination. This work will also assist in determining the likely impact of any contamination on the value of the land holdings of the CLE. However, it is considered that the existence of contaminated sites will not have a material impact on the overall value of the CLE land holdings.

The additional work is also expected to assist the Department of Lands to determine a reasonable estimation of the costs likely to be incurred in any remediation of the sites.

(k) Impairment of Property, Plant and Equipment

As a not-for-profit entity with no cash generating units, the Entity is effectively exempt from AASB 136 *Impairment of Assets* and impairment testing. This is because AASB 136 modifies the recoverable amount test to the higher of fair value less costs to sell and depreciated replacement cost. This means that, for an asset already measured at fair value, impairment can only arise if selling costs are material. Selling costs are regarded as immaterial.

(l) Trade and Other Receivables

Trade and other receivables are recognised initially at fair value, usually based on transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables.

Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial. An allowance for impairment of receivables is established when there is objective evidence that the Entity will not be able to collect all amounts due. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Bad debts are written off as incurred.

(m) Equity Transfers

The accounting treatment for transfers of land between CLE and other State government agencies which are not due to an administrative restructure or transfers of programs/functions and parts thereof between NSW public sector entities is in accordance with NSW Treasury's accounting policy, TPP 06-7 *Contributions by Owners Made to Wholly-Owned Public Sector Entities.*

The approach under this policy results in gains or losses for the CLE due to differences in value between the carrying amounts recognised by the transferor and the transferee.

The rationale for this accounting approach per NSW Treasury's Policy TPP 06-7 (6.2) is as follows:

- The Government (as the shareholder or owner) has made a decision to withdraw equity from one entity and to inject equity into another entity and the financial effects of that decision should be recognised and made transparent in the financial report of the transferor entity. The transfer is in substance a transfer to / from the Government and should be treated consistently by all parties to the transfer.

- The transfer of assets / liabilities at fair value crystallises any unrealised gains and losses not previously recognised and provides transparency and accountability in terms of the past performance of the transferor entity

- The Government needs to know the current value of the assets and liabilities transferred and now recognised by the transferee, in order to determine / maintain an appropriate debt / equity structure and to assess the performance of entities.

This treatment must be applied by Departments where the transfer also involves a statutory body or a PTE. This is because AAS 29 only applies to transfers between two Departments. For example, where the fair value recognised by the transferee entity is lower than the carrying amount recognised by the transferor entity, the transferor entity will be required to write down the asset to the same value prior to transfer (even though normally the entity may not be subject to the recoverable amount test).

This treatment reflects that the best indication of fair value for a transferor entity on transfer is the fair value recognised by the transferee entity. This is essential when a transfer is an equity transfer, to ensure consistency in treatment and transparency.

Liabilities and other assets transferred must also be valued at fair value at the date of restructure. This means that investments and debt should be re-valued to market value at the date of transfer. Any unrealised gain or loss must be recognised by the transferor.

Lands transferred as a result of equity adjustment constitute a separate 'class' of assets in terms of AASB 116 *Property, Plant and Equipment*. Only these transferred lands as a separate class of land are re-valued to the same value recognised by the transferee and the asset class where they originally belonged is not re-valued.

(n) Payables

These amounts represent liabilities for goods and services provided to the Entity and other amounts, including interest.

Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(o) Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2. REVENUE

(a) *Revenue*

	2007 $'000	2006 $'000
Leases and permissive occupancies	55,678	43,970
Royalties	2,329	3,609
Other land receipts	3,311	2,267
Water licenses	-	1,063
Interest on land sales and leases	2,504	2,583
Less:		
Rebates	(5,958)	(4,071)
Waivers	(13,962)	(11,166)
	43,902	**38,255**

(b) *Other Revenue*

Reserve trust land	31,007	4,971
Declared to be Crown land	4,052	858
	35,059	**5,829**

Other revenue above is the fair value of land acquired by the Entity for no financial consideration, being land transferred from reserve trusts or land declared to be Crown land.

3. GAINS AND LOSSES

(a) *Loss on Disposal*

	2007 $'000	2006 $'000
Proceeds from disposal	23,197	20,586
Carrying value of assets disposed	(54,546)	(57,168)
Net (loss) on disposal of land	**(31,349)**	**(36,582)**

Proceeds from Disposal

Miscellaneous Land Sales	2,281	1,629
Land sold to government agencies	1,275	2,309
Conversion of Leases previously accounted as revenue	12,262	13,412
Sale of part of Crown land reserve R1011448 to Land Development Working Account	7,379	3,236
	23,197	**20,586**

Land transferred for no financial consideration to local and other government entities in accordance with the provisions of *Crown Lands Act 1989:*

Reserve trust	18,387	31,036
Crown roads transferred to Councils	10,728	2,496
	29,115	**33,532**

(b) *Other Losses*

Decrement on revaluation on land	(14,866)	(28,501)
Aboriginal Land Councils – claims granted	(25,508)	(9,946)
	(40,374)	**(38,447)**

4. EXPENSES

	2007 $'000	2006 $'000
Audit Fees (see note 1(f))	(60)	-
Bad debts expense	139	(55)
Grant expense (issuance of interest free loans)	(2,549)	(2,145)
Other	(86)	(49)
	(2,556)	**(2,249)**

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents	**12,671**	**12,500**

Cash and cash equivalents comprises cash at bank, security deposits and receipts from leases, rentals etc collected by the Departments. An amount of $12.061 million (2006 - $11.262 million) is held in a bank remitting account pending transfer to the Consolidated Fund.

6. TRADE AND OTHER RECEIVABLES

Trade debtors	23,662	20,153
Amounts due on conversions	1,408	1,322
Allowance for impairment	(752)	(3,957)
	24,318	**17,518**

The 2006 provision of $3.957m related primarily to long outstanding debts of telecommunication providers, which were subject to dispute. In 2005, the Independent Pricing and Regulatory Tribunal of NSW (IPART) undertook a detailed review of the pricing for telecommunication sites on Crown Lands. The IPART recommendations were accepted by Government during the year. Following subsequent negotiations with the telecommunication providers, the debts were reduced to $2.469m at 30 June 2007, of which $0.500m is considered to be doubtful. The balance of the allowance for impairment represents other doubtful debts.

7. NON-CURRENT TRADE AND OTHER RECEIVABLES

Amounts due on conversions	**22,708**	**23,402**

8. PROPERTY, PLANT AND EQUIPMENT

Year ended 30 June 2007	Crown Land $'000	Crown Land under tenure $'000	Land to Dept of Environment & Climate Change and Forests NSW $'000	2007 $'000
Balance at the beginning of the year	**4,892,067**	**881,198**	**-**	**5,773,265**
Additions	35,059	-	-	35,059
Disposals	(79,382)	(16,074)	-	(95,456)
Transfers between classes	(51,879)	(30,331)	82,210	-
Revaluation increment/(decrement)	802,442	(283,215)	-	519,227
Revaluation (decrement) on transfer	-	-	(63,938)	(63,938)
Transfer from/(to) other government agencies	5,450	-	(18,272)	(12,822)
Balance at the end of the year	**5,603,757**	**551,578**	**-**	**6,155,335**

Year ended 30 June 2006	Crown Land $'000	Crown Land under tenure $'000	Land to Dept of Environment & Climate Change and Forests NSW $'000	2006 $'000
Balance at the beginning of the year	**4,938,858**	**765,722**	**-**	**5,704,580**
Additions	5,829	-	-	5,829
Disposals	(43,686)	(14,112)	-	(57,798)
Transfers between classes	(39,393)	(9,818)	49,211	-
Revaluation increment/(decrement)	24,737	139,406	-	164,143
Revaluation (decrement) on transfer	-	-	(39,857)	(39,857)
Transfer from/(to) other government agencies	5,722	-	(9,354)	(3,632)
Balance at the end of the year	**4,892,067**	**881,198**	**-**	**5,773,265**

The Crown Leasehold Entity land holdings include land, valued at $1.009 billion, which has been granted to local Aboriginal Land Councils under the Aboriginal Land Rights Act 1983. These parcels of land remain under the care, control and management of the Crown pending formal land boundary surveys being undertaken so that freehold title can be prepared. Once this action occurs, freehold title can be issued to the respective local Aboriginal Land Councils. At that point the care, control and management of the land will be transferred from the Crown.

9. TRADE AND OTHER PAYABLES

	2007 $'000	2006 $'000
Security deposits	1,492	1,466
Payments received in advance	1,788	2,428
Others	140	2,298
	3,420	**6,192**

In addition to the cash security deposits of $1.492 million (2006 - $1.466 million), the entity is holding non cash guarantees of $4.792 million (2006 - $4.724 million) in the form of bank guarantees.

These bank guarantees are required in connection of a lease or licence of land for the provision of restoration costs that CLE may incur, if after the expiry of the lease or licence, work has to be done to restore the land to its original state or to demolish any structures that the customer may have left. These bank guarantees can also be used to cover unpaid rent although this is not the main reason for holding the guarantees. When the lease or licence expires or is terminated, if the land is in satisfactory condition and no money needs to be spent, the bank guarantee is returned to the customer.

10. OTHER CURRENT LIABILITIES

Amount due to Treasury:		
- Unspent deposits	873	-
Unearned revenue	22,486	24,054
	23,359	**24,054**

Unearned revenue represents invoices raised in the current financial period in respect of future financial period.

11. OTHER NON-CURRENT LIABILITIES

The Crown Leasehold Entity has provided for the liability of claims which have been granted to local Aboriginal Land Councils under the Aboriginal Land Rights Act 1983 as at 30 June 2007 but not yet transferred. The amount represents fair value of land granted based on estimated size of the land. Until the land is surveyed, the precise area to be transferred is unknown.

Opening balance of Aboriginal Land Council claims granted	1,024,762	1,015,446
Claims granted during the year	25,508	9,946
Claims transferred out during the year from provision	(40,911)	-
Closing balance of Aboriginal Land Council claims	**1,009,359**	**1,024,762**

12. CONSOLIDATED FUND TRANSFERS

The amount of $54.798 million (2006 - $61.152 million – includes $1.063m Water licence fees) represents funds transferred to the Consolidated Fund in the twelve months to 30 June 2007 by the Department of Lands including DNR's Western Division's lease fees and court fees . Water licence fees were separately collected and transferred to the Consolidated Fund by DNR.

13. EQUITY

	Retained Earnings		Asset Revaluation Reserve		Total Equity	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**	**2007 $'000**	**2006 $'000**
Balance at the beginning of the financial year	**2,675,966**	**3,779,319**	**2,095,711**	**1,953,005**	**4,771,677**	**5,732,324**
Prior Years provision for ALC claims granted	-	(1,015,446)	-	-	-	(1,015,446)
AASB 139 first-time adoption	-	(10)	-	-	-	(10)
Restated opening balance	**2,675,966**	**2,763,863**	**2,095,711**	**1,953,005**	**4,771,677**	**4,716,868**
Changes in Equity- transactions with owners as owners						
Land transferred to other government agencies	(18,272)	(9,354)	-	-	(18,272)	(9,354)
Land transferred from other government agencies	5,450	5,722	-	-	5,450	5,722
Distribution to Treasury (Con Fund transfers)	(54,798)	(61,152)	-	-	(54,798)	(61,152)
Total	**(67,620)**	**(64,784)**	**-**	**-**	**(67,620)**	**(64,784)**
Changes in Equity- other than transactions with owners as owners						
(Loss)/profit for the year	4,682	(33,194)	-	-	4,682	(33,194)
Increment on revaluation of land	-	-	519,227	152,787	519,227	152,787
Transfer on disposal of land	-	10,081	(49,072)	(10,081)	(49,072)	-
Total	**4,682**	**(23,113)**	**470,155**	**142,706**	**474,837**	**119,593**
Balance at the end of the financial year	**2,613,028**	**2,675,966**	**2,565,866**	**2,095,711**	**5,178,894**	**4,771,677**

Prior Period Error

Since the enactment of the *Aboriginal Land Rights Act 1983* many Aboriginal Land Claims have been granted. While such claims have been granted, the care, control and management of the granted lands does not transfer to the relevant Local Aboriginal Land Council until the parcels have been surveyed and title issued. Prior to title being issued, the parcels of granted Crown land remain under the control of the Crown and have been brought to account as part of the CLE land holdings.

During the re-valuation of the CLE land holdings in 2007, the Department of Lands was able to establish reasonable boundaries for the unsurveyed parcels and for the first time, to determine an approximate value for granted Aboriginal Land Claim parcels. Based on the 2007 re-valuations of Crown land parcels within each local government area, the value for granted Aboriginal land claims that were still under the control of the Crown was calculated at $1.009 billion.

In order to bring the item to account for the first time, the item has been treated as a correction of a prior period error. This has resulted in a need to re-state opening equity balances for 1 July 2005 as reflected in the above table. In bringing the error to account, an adjustment of $1.015 billion has been made to the opening balances of retained earnings and other non-current liabilities.

During 2005/06, Crown land valued at $9.3 million was granted as Aboriginal Land Claims. This adjustment has been reflected as a re-statement of the expenses incurred during that year as reflected in Note 3(b). Similarly, during 2006/07, Crown land valued at $25.5 million was granted. This has been reflected as an expense incurred during the 2006/07 financial year as reflected in Note 3(b).

14. COMMITMENTS AND CONTINGENCIES

a) Operating lease commitments – Crown Leaseholds Entity as lessor

The CLE has entered into operating leases on its leasehold land (Note 1(j)). All the non-cancellable leases rental charges are increased annually on the *Consumer Price Index* basis and the lease terms range from 1 to 99 years.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

	2007 $'000	**2006 $'000**
Not later than one year	20,309	19,529
Later than one and not later than five years	89,206	87,659
Later than five years	124,026	125,374
	233,541	**232,562**

a) Operating lease commitments – Crown Leaseholds Entity as lessor (continued)

The leases and the lease conditions are classified into the following categories:

***Crown Lands Act* 1989 (CLA):**

- **Lease**
  This type of lease can be granted for a period up to 99 years and conditions are imposed in accordance with the specific requirements of the leased area etc. In most instances, it is the land only that is leased and it is recognized that the improvements belong to the lessee or there is a right for the lessee to remove improvements at the termination of the lease (with the consent of the Minister).

- **Licence**
  These tenures are terminable at will by the Minister and generally have not set term.

- **Enclosure Permit**
  This is a permit to enclose a Crown road or watercourse and is attached to the land that is either freehold or under perpetual lease, but not a licence.

***Crown Lands (Continued Tenures) Act* 1989 (CTA):**

- **Perpetual Lease**
  This is the lease held in perpetuity over land (i.e. it does not expire) subject to compliance with conditions including payment of annual rent, etc. Many of these can be purchase at a low value. If the lease is surrendered or terminated, no compensation is payable to the holder.

- **Term Lease**
  This is a lease held for a stated period of time. It is also held over land only and the land may be purchased if the Minister agrees. The purchase price for the land would be market value.

- **Special Lease**
  These leases were granted for a period up to 40 years under previous legislation for a variety of purposes. The land can only be used for the purpose for which the lease was granted.

- **Commonwealth Leases**
  These leases are generally tenures granted for a specific purpose such as telecommunications or file ranges, etc.

14. COMMITMENTS AND CONTINGENCIES *(continued)*

(b) Contingent liabilities

Applications for native title under the *Native Title Act 1993* and *Aboriginal Land Rights Act 1983* have been made over various areas of land and water in New South Wales, which might ultimately result in land being transferred for no financial consideration. These applications have not been finalised and it is therefore not possible to estimate the financial impact or result of the claims.

15. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2007 $'000	2006 $'000
(Loss)/profit for the year	4,682	(33,194)
Adjustment for non-cash items		
Loss on land disposed	31,349	36,582
Interest free loan adjustments	2,365	2,139
(Gain) on non cash acquisition of land	(35,059)	(5,829)
Asset revaluation decrement	14,866	28,501
ALC claims granted	25,508	9,946
Change in assets and liabilities		
Decrease/(Increase) in receivables	(4,084)	3,561
(Decrease)/Increase in liabilities	(3,468)	(870)
Net cash flows from operating activities	**36,159**	**40,836**

16. FINANCIAL INSTRUMENTS

The entity's principal financial instruments include cash and cash equivalent, trade and other receivables, trade and other payables and other liabilities. These financial instruments arise directly from the Entity's operations or are required to finance the Entity's operations. The Entity does not enter into or trade financial instruments for speculative purposes. The Entity does not use financial derivatives.

(a) Interest rate risk

Interest rate risk is the risk that the value of the instruments will fluctuate due to changes in market interest rates. The Entity's exposure to interest rate risk and the weighted average effective interest rates of financial assets and liabilities at the balance date are as follows:

	Weighted Average effective interest rate	Floating Interest rate	Non-interest Bearing	Total carrying Amount as per Balance Sheet
	%	$000	$000	$000
30 June 2007				
Financial Assets				
Cash	-	-	12,671	12,671
Trade and other receivables	7.98	24,116	22,910	47,026
Total Financial Assets		**24,116**	**35,581**	**59,697**
Financial Liabilities				
Trade and other payables	-	-	3,420	3,420
Amount due to Treasury	-	-	872	872
Unearned Revenue	-	-	22,486	22,486
Total Financial Liabilities		**-**	**26,778**	**26,778**
30 June 2006				
Financial Assets				
Cash	-	-	12,500	12,500
Trade and other receivables	8.00	24,724	16,196	40,920
Total Financial Assets		**24,724**	**28,696**	**53,420**
Financial Liabilities				
Trade and other payables	-	-	6,192	6,192
Amount due to Treasury	-	-	-	-
Unearned Revenue	-	-	24,054	24,054
Total Financial Liabilities		**-**	**30,246**	**30,246**

There are no financial instruments subject to fixed interest rates.

16. FINANCIAL INSTRUMENTS (Continued)

(b) Cash

Cash comprises cash on hand and bank balances within the Treasury Banking System. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation (TCorp) 11am unofficial cash rate, adjusted for a management fee to Treasury.

(c) Receivables

All trade debtors are recognised as amounts receivable at the balance date. The ability to collect trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. The credit risk is the carrying amount (net of any allowance for impairment). No interest is earned on trade debtors. The carrying amount approximates fair value.

(d) Trade Creditors and Accruals

The Liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer's Direction 219.01. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. Treasurer's Direction 219.01 allows the Minister to award interest for late payment.

(e) Credit Risk

Credit risk is the risk of financial loss arising from another party to a contract or financial position failing to discharge a financial obligation there under. The Entity's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Balance Sheet.

17. AFTER BALANCE DATE EVENTS

There are no after balance date events.

End of Audited Financial Report

New South Wales
TREASURY

NSW Self Insurance Corporation

Financial Report
for the year ended
30 June 2007

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

NSW SELF INSURANCE CORPORATION

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the NSW Self Insurance Corporation, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Qualified Auditor's Opinion

In my opinion, except for the effect on the financial report of the matter referred to in the Basis for Qualified Auditor's Opinion paragraph below, the financial report:

- presents fairly, in all material respects, the financial position of the NSW Self Insurance Corporation as of 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

Basis for Qualified Auditor's Opinion

As disclosed in Note 2 "Summary of Significant Accounting Policies", the Corporation has applied Accounting Standard AASB 137 *"Provisions, Contingent Liabilities and Contingent Assets"* to its general insurance contracts because at the whole of government level the Treasury Managed Fund is a self insurance scheme. In my opinion, the Corporation should have applied Accounting Standard AASB 1023 *"General Insurance Contracts"* to its general insurance contracts as the Corporation meets the definition of a general insurer. While I could not carry out audit procedures to determine the actual effect of this departure, I believe that had the Corporation applied AASB 1023, liabilities would have increased by a material amount and net assets decreased by the same amount. The Corporation would have also had to make additional disclosures about its general insurance contracts.

The Secretary of Treasury's Responsibility for the Financial Report

The Secretary is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Secretary, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Corporation,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Independence

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and

- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

Peter Achterstraat
Auditor-General

12 October 2007

NEW SOUTH WALES SELF INSURANCE CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Pursuant to Sections 41C of the Public Finance and Audit Act 1983, I declare that in my opinion:

1. The accompanying financial report, exhibit a true and fair view of the financial position of the NSW Self Insurance Corporation as at 30 June 2007 and the transactions for the year then ended; and

2. The financial report has been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2005, the Treasurer's Directions and relevant Australian Accounting Standards except for AASB 1023 *General Insurance Contracts*.

Further, I am not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.

Ian Neale
Acting Secretary, NSW Treasury and
Manager, NSW Self Insurance Corporation
12 October 2007

NEW SOUTH WALES SELF INSURANCE CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NEW SOUTH WALES SELF INSURANCE CORPORATION
INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2007 $'000	2006 $'000
REVENUE			
Premiums	3,23	820,103	956,318
Reinsurance and Other Recoveries	4,23	51,736	35,472
Investment Income	5,23	555,046	604,173
Other	6,23	8	2,105
Total Revenue		**1,426,893**	**1,598,068**
EXPENSES			
Claims	7,23	163,465	317,974
Outwards Reinsurance	23	29,944	26,549
Depreciation and Amortisation	15,16,23	904	625
Finance Costs	18,23	271,158	268,030
Management Fees	23	86,573	78,023
Other	9,23	35,052	62,087
Total Expenses		**587,096**	**753,288**
SURPLUS BEFORE PAYMENT TO THE CROWN ENTITY		**839,797**	**844,780**
Payment to the Crown Entity	8,23	910,000	1,019,311
NET DEFICIT FOR THE YEAR AFTER PAYMENT TO THE CROWN ENTITY		**(70,203)**	**(174,531)**

The accompanying notes form part of these financial statements.

NEW SOUTH WALES SELF INSURANCE CORPORATION
STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2007 $'000	2006 $'000
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		-	-
Net Deficit for the Year After Payment to the Crown Entity		(70,203)	(174,531)
TOTAL INCOME AND EXPENSES RECOGNISED FOR THE YEAR		**(70,203)**	**(174,531)**
EFFECT OF CHANGES IN ACCOUNTING POLICY			
Accumulated Funds	21	-	(1,225)
		(70,203)	**(175,756)**

The accompanying notes form part of these financial statements.

NEW SOUTH WALES SELF INSURANCE CORPORATION
BALANCE SHEET
AS AT 30 JUNE 2007

	Notes	2007 $'000	2006 $'000
CURRENT ASSETS			
Cash and Cash Equivalents	22,24,25	99,761	304,796
Receivables	10,24,25	120,772	89,442
Reinsurance and Other Recoveries Receivable	11,24,25	31,939	29,384
Financial Assets at Fair Value	13,24,25	306,864	308,480
Derivative Financial Instruments	12,24,25	4,537	1,504
Total Current Assets		**563,873**	**733,606**
NON-CURRENT ASSETS			
Reinsurance and Other Recoveries Receivable	11,24,25	154,811	144,286
Financial Assets at Fair Value	13,24,25	4,564,385	4,641,340
Property, Plant and Equipment	15,24	498	491
Intangibles	16,24	3,016	2,536
Other	14,24	51	119
Total Non-Current Assets		**4,722,761**	**4,788,772**
TOTAL ASSETS		**5,286,634**	**5,522,378**
CURRENT LIABILITIES			
Payables	17,24,25	128,353	121,706
Derivative Financial Instruments	12,24,25	-	3,374
Provision for Outstanding Claims	18,24	622,672	654,522
Other	20,24	3,331	2,366
Total Current Liabilities		**754,356**	**781,968**
NON-CURRENT LIABILITIES			
Provision for Outstanding Claims	18,24	3,683,677	3,821,540
Provision for Restoration	19,24	53	119
Total Non-Current Liabilities		**3,683,730**	**3,821,659**
TOTAL LIABILITIES		**4,438,086**	**4,603,627**
NET ASSETS		**848,548**	**918,751**
EQUITY			
Retained Surplus	21,24	848,548	918,751
		848,548	**918,751**

The accompanying notes form part of these financial statements.

NEW SOUTH WALES SELF INSURANCE CORPORATION
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2007 $'000	2006 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
RECEIPTS			
Premiums Received		901,632	1,046,617
Premiums - Hindsight Adjustment Received		61,525	66,649
Investment Income		969,475	547,965
Reinsurance and Other Recoveries		38,862	35,236
GST Refunds		23,210	21,119
Other		85	2,105
Total Receipts		**1,994,789**	**1,719,691**
PAYMENTS			
Claims and Expenses Paid		(643,332)	(665,126)
Premiums - Hindsight Adjustment Paid		(90,437)	(57,970)
Management Fees Paid		(94,584)	(89,012)
GST Paid		(86,577)	(98,405)
Outwards Reinsurance Expense		(31,257)	(26,101)
Payment to the Crown Entity		(910,000)	(759,844)
Total Payments		**(1,856,187)**	**(1,696,458)**
NET CASH PROVIDED BY OPERATING ACTIVITIES	22	**138,602**	**23,233**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sale of Investments		2,023,264	1,332,504
Purchase of Investments		(2,365,510)	(1,122,614)
Purchase of Property, Plant and Equipment, and Intangibles		(1,391)	(3,652)
NET CASH (USED IN) / PROVIDED BY INVESTING ACTIVITIES		**(343,637)**	**206,238**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(205,035)**	**229,471**
Cash and Cash Equivalents at the Beginning of Year		304,796	75,325
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	22	**99,761**	**304,796**

The accompanying notes form part of these financial statements.

NEW SOUTH WALES SELF INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

1. NSW SELF INSURANCE CORPORATION INFORMATION

The NSW Self Insurance Corporation (SICorp) is a statutory body that largely provides self-insurance coverage for general government budget-dependent agencies. Its main business address is Level 17, 201 Elizabeth Street Sydney NSW 2000.

SICorp is a not-for-profit entity which includes all the assets, liabilities, rights and obligations of the:

- NSW Treasury Managed Fund (TMF)
- Pre-Managed Fund Reserve
- Governmental Workers Compensation Account (GWC)
- Transport Accidents Compensation Fund (TAC)

SICorp operates under the *NSW Self Insurance Corporation Act 2004*, the Net Assets Holding Level Policy (Note 8) and the *Public Finance and Audit Act 1983*. SICorp was previously the Insurance Ministerial Corporation, under section 24 of the *Government Insurance Office (Privatisation) Act 1991*.

The claims management arrangement of SICorp is shared between:

- GIO General Limited (GIO)
- Allianz Insurance Australia (Allianz)
- Employers Mutual Limited (EML)

Current contract with the existing claims managers commenced at 1 July 2005 and is subject to public tender, which occur at least every five years.

The claim managers receive a management fee to administer the following funds:

NSW Treasury Managed Fund

The NSW Treasury Managed Fund (TMF) is SICorp's main insurance scheme. It is a self-insurance scheme that protects the insurable assets and exposures of:

- all public sector agencies financially dependent on the Consolidated Fund
- all public hospitals
- various statutory authorities

Pre-Managed Fund Reserve

The Pre-Managed Fund Reserve holds the reserves previously held in the Fire Risks Account, the Fidelity Fund, and the Public Liability Fund. It has been used to fund claims the NSW Government incurred before 1 July 1989 which the government previously met, in particular GWC claims. These claims are now funded directly from the Consolidated Fund.

Pre-Managed Fund Reserve annual reporting accounts have been consolidated with the TMF from 2000-01.

1. NSW SELF INSURANCE CORPORATION INFORMATION (continued)

Governmental Workers Compensation Account

The Governmental Workers Compensation Account (GWC) pays the outstanding workers compensation claims liabilities as at 30 June 1989 of the:

- Consolidated Revenue Fund
- Public Hospitals
- RTA Managed Fund

From 1 July 1989, the TMF has handled workers compensation insurance for these agencies.

Transport Accidents Compensation Fund

The Transport Accidents Compensation Fund (TAC) pays for motor transport accident claims under the common law system which applied until 30 June 1987 and TransCover system claims costs from then until 30 June 1989. The Intermediate Claims provisions of the Motor Accidents Scheme retrospectively replaced TransCover.

The accounts are consolidated into SICorp's parent, the Crown Entity.

This financial report was authorised for issue by the Secretary of NSW Treasury on the date the accompanying statement by the Secretary was signed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general purpose financial report prepared in accordance with the requirements of:

- Public Finance and Audit Act 1983
- Public Finance & Audit Regulation 2005
- Treasury Accounting Policy Statements

The report also complies with relevant Australian Accounting Standards which include Australian Equivalents to International Financial Reporting Standards (AEIFRS) except for AASB 1023 *General Insurance Contracts*.

The financial statements have been prepared on a historical cost basis, except for:

- Derivative financial instruments
- Financial assets designated as fair value through profit and loss
- Provision for outstanding claims

These are measured at fair value.

All amounts are rounded to the nearest 1,000 Australian dollars ($'000).

Use of Estimates and Judgements

Classification and Valuation of Investments
SICorp classifies its investments as fair value through profit and loss. The fair value has been determined by reference to the underlying value provided by the Portfolio manager.

Valuation of Derivative Financial Instruments
The fair values of derivatives are determined by reference to the market value for similar instruments.

Where an active market exists, fair values are determined by reference to the specific market quoted prices/yields at the year end. If no active market exists, judgement is used to select the valuation technique which best estimates fair value by discounting the expected future cash flows arising from the securities to their present value using market yields and margins appropriate to the securities. These margins take into account credit quality and liquidity of the securities.

Provision for Outstanding Claims
The provision for outstanding claims is determined by the independent actuary, PricewaterhouseCoopers, in consultation with the claims managers for NSW Treasury Managed Fund, Transport Accident Compensation Fund and Governmental Workers Compensation Account. It is measured as the best estimate of the expected future payments required to settle the present obligation at the reporting date.

The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation".

Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the reporting date using discount rates based on investment opportunities available on the amounts of funds sufficient to meet claims as they become payable. The details of rates applied are included in Note 18.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The outstanding claims liability of Pre Managed Fund Reserve (part of TMF) is determined from estimates provided by the member agencies. The list of claims estimates provided by the agencies is vetted by the NSW Treasury Managed Fund Manager and approved by the NSW Treasury.

Statement of Compliance

The financial report complies with relevant Australian Accounting Standards which include AEIFRS except for AASB 1023 *General Insurance Contracts*.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2007. These are listed as follows:

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replacing the presentation requirements of financial instruments in AASB 132 *Financial Instruments: Presentation*. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, ASSB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 101 *Presentation of Financial Statements* (October 2006) makes amendments to align more closely with International Financial Reporting Standards (IFRS) requirements. AASB 101 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments* (April 2007). AASB 2007-4 is applicable for annual reporting periods beginning on or after 1 July 2007.
- AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* (June 2007). AASB 2007-6 is applicable for annual reporting periods beginning on or after 1 January 2009.
- AASB Interpretation 4 *Determining whether and Arrangement contains a Lease* (February 2007). AASB Interpretation 4 is applicable for annual reporting periods beginning on or after 1 January 2008.
- AASB Interpretation 10 *Interim Financial Reporting and Impairment* (September 2006). AASB Interpretation 10 is applicable for annual reporting periods beginning on or after 1 November 2006.

SICorp will adopt these for the annual reporting periods beginning on or after the applicable dates.

Other standards, amendments and Interpretations which are available for early adoption but not applicable to SICorp are not listed here.

The initial application of AASB 7, AASB 2005-10 and AASB 101 is not expected to have an impact on the financial results of SICorp as these are concerned only with disclosures.

The financial results of SICorp will not be impacted from the application of AASB 2007-4 as NSW Treasury is likely to prohibit the use of any of the reinstated options made available following its introduction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative Figures

Comparative figures have been reclassified and repositioned in the financial statements, where necessary, to conform to the basis of presentation and classification used in the current year.

Reclassifications made to comparative figures include:

Income Statement

- Management fees, risk management fees and legal expenses which were previously presented within claims expenses, have been reclassified. Management fees of $78.0 million are now shown on the face of the Income Statement. Risk management fees and legal expenses of $1.5 million are now included in other expenses. These reclassifications were included to provide more useful information to users of the financial statements.

Balance Sheet

- An amount of $308.4 million in financial assets at fair value previously classified as non-current assets were reclassified to current assets to reflect the nature of those investments.
- Derivative financial instruments (both assets and liabilities) were previously reported on a gross basis were reclassified to net-off transactions which are with the same counter-party. Derivative assets decreased by $200.3 million and derivative liabilities decreased by the same amount.
- Contributed capital of $94.0 million was reclassified to retained surplus to clarify that the balance related to prior period surplus.

Cash Flow Statement

- Claims and expenses in operating activities transferred $3.7 million to investment activities as this related to purchase of property, plant and equipment and intangibles.
- Cash flows from investing activities of $209.9 million were previously recorded net of proceeds from sale and purchase of investments. These activities are now reported at gross, $1,332.5 million of proceeds from sale of investments and $1,122.6 million in purchase of investments.

Prior Year Adjustments

During the year, SICorp paid levies of $6.1 million to the Dust Diseases Board and $0.3 million of claims expenses. These expenses relates to the year ended 30 June 2006. Appropriate restatements have been made to other expenses (Note 9) and claims expenses (Note 7) accordingly.

REVENUE

Revenue is recognised as probable economic benefits to SICorp that can be reliably measured. The following criteria are used to identify revenue:

Premium Revenue

Premium revenue is the cost to member agencies of insurance cover from 1 July each year.

Premiums are recognised to income over the period of the insured risk.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance and Other Recoveries Revenue

Reinsurance recoveries are recognised as revenue for claims incurred. Other recoveries include recoveries of claims paid under:

- sharing agreements
- third party recoveries
- salvage and subrogation

Investment Income

Investment income includes interest income and net gains or losses from changes in the fair value of investments.

Interest revenue is recognised as interest accrues.

EXPENSES

Outwards Reinsurance Expense

Premiums ceded to re-insurers are recognised as an expense in line with the indemnity period of the corresponding reinsurance contract.

Claims Expenses

Claims expenses include:

- cash settlement of claims
- movements in outstanding provisions

Finance Costs

Finance costs include the unwinding of discounts for the provision of outstanding claims and restoration costs.

These are recognised as an expense when incurred.

Depreciation of Property, Plant and Equipment

Depreciation is on a straight-line basis for all depreciable assets. The depreciable amount of each asset is written-off over its estimated useful life.

The useful lives of depreciable asset categories are:

- office equipment: 7 years
- furniture and fittings: 5 to 10 years
- computer hardware: 4 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amortisation of Intangible Assets

Computer software costs are amortised over 5 years.

Payment to the Crown Entity

Pursuant to the Net Assets Holding Level Policy, SICorp will make payments to the Crown Entity when it has surplus assets over and above the required level. Further information on the policy is included in Note 8.

The payments are recognised as expenses when they are paid or payable.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

SICorp as a lessee
The operating lease relates to the rental of office space, the principal business address of SICorp. It is a non-cancellable lease with a term of six years and an option to extend for a further four years. Rental review is taken biannually to effective market prices.

On expiration of the lease, the rental premise is to be returned to its original condition. A provision for restoration has been taken up.

The lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term.

Income Tax

Income from the funds of SICorp are exempt from income tax under S23(d) of the Income Tax Assessment Act 1936.

ASSETS

Cash and Cash Equivalents

Cash and cash equivalents in the Balance Sheet comprise:

- deposit held at call with banks
- investments in NSW Treasury Corporation Hour-Glass Cash Facility
- investments in money market instruments

The Cash Flow Statement shows these cash and cash equivalents net of outstanding bank overdraft(s).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. SICorp classifies its financial assets after initial recognition and, when allowed and appropriate, it re-evaluates this at each year-end.

Financial assets at fair value
Financial assets are designated at fair value through profit and loss as they are managed and their performance is evaluated on a fair value basis. Gains and losses are recognised in the Income Statement.

Investments comprise of NSW Treasury Corporation (TCorp) Managed Bond portfolio and Hour-Glass investment facilities are classified as fair value through profit and loss.

Derivative Financial Instruments
SICorp uses derivatives such as interest rate swaps to reduce the risks of interest rate fluctuations. These instruments are initially recognised at fair value at the date on which the derivative contract is entered into and are subsequently remeasured to fair value.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair value for derivatives are shown after net-off of transactions with the same counter-party.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the Income Statement

Fair value of interest rate contracts are calculated by reference to market value for similar contracts.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets, for example taxes and premiums, are short-term to be carried at original invoice amount as the effect of discounting is immaterial.

The collection of trade receivable is reviewed on an ongoing basis. An allowance for impairment is established when there is objective evidence that not all amounts due will be collectable. Bad debts are written off as incurred.

Reinsurance and Other Recoveries Receivable

Receivables from reinsurance and other recoveries are actuarially assessed.

When it becomes apparent that a recovery may not be received with virtual certainty, these recoveries are deducted from the recoveries receivable estimate.

The amount of reinsurance and other recoveries receivables is equal to gross case estimated costs plus gross payments to date less the retention limit less reinsurance recoveries received to date. The measurement of these receivables is affected by factors such as normal inflation and the discount rate used for discounting of future expected receipts. The rates applied are consistent with those used in the valuation of provisions for outstanding claims (see Note 18).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

An explicit allowance has been made in respect of Liability claims arising in respect of Hepatitis C. As recoveries from Hepatitis C claims are funded by the Commonwealth, default risk is considered negligible. In relation to other recoveries, around half of these are recoverable from the Motor Accidents Authority, for which default risk is also negligible.

There has not been any key assumption made around the amounts recoverable that would have a significant risk of causing a material adjustment to the carrying amount of these assets within the next annual reporting period.

Property, Plant and Equipment

Office furniture, equipment and computer hardware are recorded at cost plus any incidental acquisition costs. All items are carried at cost less accumulated depreciation, as surrogate for fair value.

The depreciation expense on property, plant and equipment are recognised in the depreciation and amortisation line of the Income Statement.

No revaluation is undertaken on these assets as the difference between fair value and carrying value is immaterial.

Intangible assets

Intangible assets include capitalised expenditures for the Data Warehouse and computer softwares.

Intangibles are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation.

The amortisation expense on intangible assets is recognised in profit or loss in the depreciation and amortisation line of the Income Statement.

Impairment of Assets

As a not-for-profit entity with no cash generating units, SICorp is effectively exempt from AASB 136 *Impairment of Assets* and impairment testing. AASB 136 defines recoverable amount as the higher of fair value less costs to sell and depreciated replacement cost. This means that, for an asset already measured at fair value, impairment can only arise if selling costs are material. Selling costs are regarded as immaterial.

LIABILITIES

Provisions

Provisions are recognised when SICorp has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The liability for claims includes:

- claims incurred but not yet paid
- incurred but not yet reported

When it is virtually certain that some or all of a provision will be reimbursed, as in an insurance contract, the reimbursement is recognised as a separate asset.

Where there is a material effect due to the time value of money, a provision is discounted. The increase in the provision is then recognised as a finance cost over time.

Under Australian Equivalents to International Financial Reporting Standards, the Pre-Managed Fund Reserve, the GWC and the TAC are required to adopt AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. SICorp's main insurance scheme, the TMF, is required to comply with AASB 1023 *General Insurance Contracts*.

However, at the General Government and Total State Sector reporting levels SICorp is considered a public sector self insurance scheme resulting in the adoption of AASB 137 for all of the Corporation's activities. To provide enhanced consistency, reliability, relevance and comparability of the financial information for users of the financial statements, AASB 137 is applied across all SICorp's activities including the TMF.

Trade and other payables

Trade and other payables are carried at costs and are liabilities for goods and services provided, but not paid for by the year's end. This occurs when SICorp must make future payments for the goods and services, even if it has not been billed for them.

Like receivables, these are short-term to be carried at original invoice amount as the effect of discounting is immaterial.

Goods and Service Taxes

Revenue, expenses and assets are recognised net of goods and services tax (GST), except:

- where the GST is either part of the cost of acquiring an asset, or part of an item of expense not recoverable from the Australian Tax Office
- for receivables and payables which are stated with the amount of GST included

The net amount of GST recoverable or payable to the taxation authority is included as part of receivables or payables.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST recoverable or payable on cash flows from investing and financing activities are classified as operating cash flows.

3. PREMIUM REVENUE

	2007 $'000	2006 $'000
Tariff Premium	791,035	891,952
Hindsight Adjustments	(26,580)	8,679
Visiting Medical Officers (VMO)	55,606	55,214
Medically Supervised Injecting Centre (MSIC)	42	241
	820,103	**956,086**
Movement in MSIC Unearned Premiums	-	232
	820,103	**956,318**

Workers compensation final hindsight adjustments for 2000/01 and interim hindsight adjustments for 2002/03 were paid in 2006/07.

Payments of the final hindsight adjustments for 2001/02 and interim hindsight adjustments for 2003/04 will be paid in 2007/08.

4. REINSURANCE & OTHER RECOVERIES REVENUE

Recoveries Revenue	38,700	32,817
Movement in Outstanding Recoveries[1]	13,036	2,655
	51,736	**35,472**

[1.] Movement in outstanding recoveries represent the increase / (decrease) in the actuarially assessed level of reinsurance and other recoveries receivable at reporting date.

The movement in outstanding recoveries for 2007 represents discounted expected future recoveries at 30 June 2007 ($186.6 million) less closing balance at 30 June 2006 ($173.6 million). Refer to Note 11 for further details.

5. INVESTMENT INCOME

Income		
Bond Portfolio	151,263	173,451
Bank Interest	4,041	3,684
Hour-Glass Facility	735,640	229,828
Net Market Value Change in Investments		
Bond Portfolio	(53,575)	(77,528)
Hour-Glass Facility	(282,323)	274,738
	555,046	**604,173**

6. OTHER REVENUE

	2007 $'000	2006 $'000
Commission Returned from Aon Re[1]	-	2,086
Other	8	19
	8	**2,105**

[1.] The contract with Aon Re ended in December 2005.

7. CLAIMS EXPENSES

Claims Paid	604,335	617,093
Movement in Outstanding Claims[1]	(440,870)	(299,119)
	163,465	**317,974**

[1.] Movement in outstanding claims represent the increase / (decrease) in provision for outstanding claims liabilities excluding the increase in provisions due to the unwinding of discounts during the year. The increase in the carrying amount of a provision due to the passage of time is recognised as a finance cost.

The movement in outstanding claims for 2007 represents outstanding claims liabilities at 30 June 2007 ($4,306.3 million) less closing balance at 30 June 2006 ($4,476.1 million) less finance cost for the year ($271.1 million). Refer to Note 18 for further details.

8. PAYMENT TO THE CROWN ENTITY

Payment to the Crown Entity	910,000	1,000,000
Movement in Outstanding Contributions	-	19,311
	910,000	**1,019,311**

Pursuant to SICorp's Net Assets Holding Level Policy, the Corporation will make payments to the Crown Entity when it has surplus assets over and above the required level.

The Policy, established in March 2006, takes into consideration the following:

- the probability of poor investment returns for the year(s), and/or
- the possibility of a deterioration in claims experience, and/or
- the impact of a major claim, either not covered by reinsurance protection or exhausting the reinsured retention level

The Policy dictates that the target surplus assets held for SICorp to be the sum of 10 per cent of outstanding claims liabilities of the TMF plus the amount absorbed by the fund of any one claim exceeding the reinsurance retention level. The adequacy of the fund's net assets level is reviewed annually based on the financial results as at 31 December.

9. OTHER EXPENSES

	2007 $'000	2006 $'000
Levies Paid to:		
Dust Diseases	4,074	6,069
WorkCover Authority of NSW	18,329	21,453
Investment Management Fees	2,421	3,040
Risk Management Fees	1,560	1,500
Actuarial Expenses		
Pricewaterhouse Coopers	3,546	4,155
Taylor Fry	102	217
Finity	-	198
Storage Costs	266	211
Maintenance	872	861
Bank Charges	21	80
Audit Fees	153	153
Legal Expenses	7	1
Consultancy	258	777
Reinsurer Administration Fees	900	904
Personnel Services Fees	1,899	1,975
Operating Lease Rental Expenses	341	303
Transition Fees[1]	-	19,982
Other	303	208
	35,052	**62,087**

1. Payments to GIO Limited as part of the 'Transition-Out Services' in the move to the new claims management arrangement which commenced on 1 July 2005.

10. RECEIVABLES

Current

	2007 $'000	2006 $'000
GST Receivable	4,657	4,058
Premiums Receivable	116,012	85,095
Other	103	289
	120,772	**89,442**

GST and other receivables are non-interest bearing and are generally on 30 days term.

11. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2007 $'000	2006 $'000
Expected Future Recoveries (Undiscounted)	293,215	273,435
Discount to Present Value	(106,589)	(99,845)
	186,626	173,590
Outstanding Reinsurance and Other Recoveries on Paid Claims	124	80
	186,750	**173,670**
Current	31,939	29,384
Non-Current	154,811	144,286
	186,750	**173,670**

12. DERIVATIVE FINANCIAL INSTRUMENTS

	2007 $'000	2006 $'000
Current Assets		
Interest Rate Swap Contract	-	457
Interest Rate Futures	4,537	1,047
	4,537	**1,504**
Current Liabilities		
Interest Rate Swap Contract	-	3,190
Interest Rate Futures	-	184
	-	**3,374**
Net amount receivable / (payable) under derivative financial instruments	**4,537**	**(1,870)**

Interest rate swap contracts were used by SICorp to naturally hedge exposure to fluctuations in interest affecting investment returns.

The NSW Treasury Corporation (TCorp) has been appointed to manage SICorp's investments. It is authorised to invest in derivative financial instruments under authorised and clearly defined limits. Derivative contracts are not used for speculative purposes.

12. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

TCorp may use the following derivative financial instruments:

- Exchange traded interest rate futures contracts
- Exchange traded interest rate options
- Interest rate swaps
- Currency and basis swaps

At 30 June, the nominal principal amounts and period of expiry of the derivatives are as follows:

	2007 $'000	2006 $'000
Less than one year	4,537	(1,870)
	4,537	**(1,870)**

13. FINANCIAL ASSETS AT FAIR VALUE

	2007 $'000	2006 $'000
Current		
Bond Portfolio	306,864	308,480
	306,864	**308,480**
Non-Current		
Hour-Glass Investments		
Australian Shares	798,262	782,679
Indexed Australian Shares	206,635	267,399
International Shares	736,184	754,772
Indexed International Shares	260,193	250,617
Listed Property	209,700	197,078
International Bonds	313,163	-
Medium-Term Growth	110,477	-
Long-Term Growth	110,061	-
Bond Portfolio	1,819,710	2,388,795
	4,564,385	**4,641,340**
	4,871,249	**4,949,820**

At 30 June 2007, total investments of SICorp are financial assets designated at fair value through profit and loss.

14. OTHER ASSETS

	2007 $'000	2006 $'000
Non-Current		
Deferred Restoration Costs	51	119
	51	**119**

15. PROPERTY, PLANT AND EQUIPMENT

	2007 $'000	2006 $'000
Computer Hardware		
Cost	664	494
Accumulated Depreciation	(271)	(123)
Net Computer Hardware	**393**	**371**
Office Equipment		
Cost	27	27
Accumulated Depreciation	(8)	(4)
Net Office Equipment	**19**	**23**
Furniture and Fittings		
Cost	107	107
Accumulated Depreciation	(21)	(10)
Net Furniture and Fittings	**86**	**97**
Total Property, Plant and Equipment		
Cost	798	628
Accumulated Depreciation	(300)	(137)
Net Property, Plant and Equipment	**498**	**491**

Reconciliations

Reconciliations of carrying amount for each class of property, plant & equipment

	2007 $'000	2006 $'000
Computer Hardware		
Net Carrying Amount at the Beginning of Year	371	-
Additions	170	494
Depreciation Expense	(148)	(123)
Balance at Year End	**393**	**371**
Office Equipment		
Net Carrying Amount at the Beginning of Year	23	-
Additions	-	27
Depreciation Expense	(4)	(4)
Balance at Year End	**19**	**23**
Furniture and Fittings		
Net Carrying Amount at the Beginning of Year	97	-
Additions	-	107
Depreciation Expense	(11)	(10)
Balance at Year End	**86**	**97**
Total Property, Plant and Equipment		
Net Carrying Amount at the Beginning of Year	491	-
Additions	170	628
Depreciation Expense	(163)	(137)
Balance at Year End	**498**	**491**

16. INTANGIBLES

	2007 $'000	2006 $'000
Computer Software		
Cost	4,245	3,024
Accumulated Amortisation	(1,229)	(488)
Net Computer Software	**3,016**	**2,536**

Reconciliation

Reconciliation of Carrying Amount

	2007 $'000	2006 $'000
Computer Software		
Net Carrying Amount at the Beginning of Year	2,536	-
Additions	1,221	3,024
Amortisation	(741)	(488)
Balance at Year End	**3,016**	**2,536**

17. PAYABLES

	2007 $'000	2006 $'000
GST Payable	85,523	85,114
Management Fees Payable	31,294	22,460
Other	11,536	14,132
	128,353	**121,706**

Payables are non-interest bearing and are generally on 30 days term.

If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

Treasurer's Direction 219.01 allows the Minister to award interest for late payment. No interest was awarded during the year for late payment.

18. PROVISION FOR OUSTANDING CLAIMS

	TMF	GWC	TAC	2007 Total	2006 Total
	$'000	$'000	$'000	$'000	$'000
Balance at the Beginning of Year	4,241,243	68,453	166,366	4,476,062	4,507,150
Additions	702,213	-	-	702,213	773,829
Payments	(591,013)	(5,169)	(8,153)	(604,335)	(617,093)
Actuarial (Gain) / Loss	(546,650)	(2)	7,903	(538,749)	(455,854)
Unwinding of Discounts	256,951	3,826	10,381	271,158	268,030
Balance at the End of Year	**4,062,744**	**67,108**	**176,497**	**4,306,349**	**4,476,062**
Current	602,725	5,294	14,653	622,672	654,522
Non-Current	3,460,019	61,814	161,844	3,683,677	3,821,540
	4,062,744	**67,108**	**176,497**	**4,306,349**	**4,476,062**

(a) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 6.81 years for TMF (2006: 6.86 years), 9.66 years for GWC (2006: 10.26 years) and 17.91 years for TAC Fund (2006: 16.15 years).

(b) The following average inflation rates and discount rates were used in measuring the liability for outstanding claims:

	TMF		GWC		TAC	
	2007	2006	2007	2006	2007	2006
	%	%	%	%	%	%
Not later than one year						
Inflation Rate	2.8 - 4.5	3.0 - 4.5	4.5	4.5	4.5	4.5
Discount Rate	6.8	6.6	6.8	6.6	6.8	6.6
Superimposed Inflation*	0 - 10.0	0 - 10.0	0 - 3.0	0 - 3.0	0 - 2.5	0 - 2.0
Later than one year						
Inflation Rate	2.5 - 4.0	2.5 - 4.5	4.5	4.5	4.5	4.5
Discount Rate	6.8	6.6	6.8	6.6	6.8	6.6
Superimposed Inflation*	0 - 10.0	0 - 10.0	0 - 3.0	0 - 3.0	0 - 2.5	0 - 2.0

* Dependent on payment type.

19. PROVISION FOR RESTORATION

	2007 $'000	2006 $'000
Balance at the Beginning of Year	119	-
Additions	-	119
Reversal of Unused Provisions	(67)	-
Unwinding of Discounts	1	-
Balance at the End of Year	**53**	**119**

20. OTHER LIABILITIES

	2007 $'000	2006 $'000
Premium Received in Advance	**3,331**	**2,366**

21. EQUITY

Contributed Capital

	2007 $'000	2006 $'000
Balance Brought Forward and Carried Forward	-	94,000
Reclassify to Retained Surplus	-	(94,000)
Balance at the End of Year	-	-

Retained Surplus

	2007 $'000	2006 $'000
Balance at the Beginning of Year	918,751	1,000,507
Reclassification from Contributed Capital	-	94,000
Changes in Accounting Policy	-	(1,225)
Restated Opening Balance	918,751	1,093,282
Current Year Deficit	(70,203)	(174,531)
Balance at the End of Year	**848,548**	**918,751**

22. NOTES TO THE CASH FLOW STATEMENT

Reconciliation of Cash and Cash Equivalents

Cash and Cash Equivalents at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2007 $'000	2006 $'000
Cash and Cash Equivalents		
Short Term Money Market Investments	43,672	238,052
Cash Held at Other Financial Institutions	56,089	66,744
	99,761	**304,796**

Included in the cash and cash equivalents is a restricted amount of $1.8 million (2006: $Nil) relating to funds being held on behalf of other parties.

Reconciliation of Net Cash Provided by Operating Activities to Net Deficit

	2007 $'000	2006 $'000
Net Deficit for the Year	**(70,203)**	**(174,531)**
Adjustments for:		
Depreciation and Amortisation	904	625
Unrealised Loss / (Gain) in Investments	414,410	(56,149)
Unwinding of Discounts	271,158	268,030
Actuarial Gains	(538,749)	(455,854)
Increase in Outstanding Claims	97,878	156,735
Decrease in Unearned Premiums	-	(232)
Increase in Payables	6,647	106,411
Increase in Other Liabilities	965	2,366
(Increase) / Decrease in Receivables	(31,330)	172,798
Increase in Reinsurance and Other Recoveries Receivable	(13,080)	(1,310)
Decrease in Other Assets	68	4,344
Decrease in Provision for Restoration	(66)	-
Net Cash Provided by Operating Activities	**138,602**	**23,233**

23. INCOME STATEMENT OF FUNDS

	TMF $'000	GWC $'000	TAC $'000	2007 Total $'000	2006 Total $'000
Revenue					
Premiums	820,103	-	-	820,103	956,318
Reinsurance and Other Recoveries	54,766	(3,494)	464	51,736	35,472
Investment Income	540,282	4,562	10,202	555,046	604,173
Other	8	-	-	8	2,105
Total Revenue	**1,415,159**	**1,068**	**10,666**	**1,426,893**	**1,598,068**
Expenses					
Claims	155,564	(2)	7,903	163,465	317,974
Outwards Reinsurance	29,944	-	-	29,944	26,549
Depreciation and Amortisation	904	-	-	904	625
Finance Costs	256,951	3,826	10,381	271,158	268,030
Management Fees	86,573	-	-	86,573	78,023
Other	34,865	74	113	35,052	62,087
Total Expenses	**564,801**	**3,898**	**18,397**	**587,096**	**753,288**
SURPLUS / (DEFICIT) BEFORE PAYMENT TO THE CROWN ENTITY	**850,358**	**(2,830)**	**(7,731)**	**839,797**	**844,780**
Payment to the Crown Entity	910,000	-	-	910,000	1,019,311
NET DEFICIT FOR THE YEAR AFTER PAYMENT TO THE CROWN ENTITY	**(59,642)**	**(2,830)**	**(7,731)**	**(70,203)**	**(174,531)**

24. BALANCE SHEET FOR FUNDS

	TMF $'000	GWC $'000	TAC $'000	2007 Total $'000	2006 Total $'000
CURRENT ASSETS					
Cash and Cash Equivalents	92,881	3,617	3,263	99,761	304,796
Receivables	120,759	4	9	120,772	89,442
Reinsurance and Other Recoveries Receivable	31,399	313	227	31,939	29,384
Financial Assets at Fair Value	306,864	-	-	306,864	308,480
Derivative Financial Instruments	4,537	-	-	4,537	1,504
Total Current Assets	**556,440**	**3,934**	**3,499**	**563,873**	**733,606**
NON-CURRENT ASSETS					
Reinsurance and Other Recoveries Receivables	150,119	3,674	1,018	154,811	144,286
Financial Assets at Fair Value	4,343,847	66,081	154,457	4,564,385	4,641,340
Property, Plant and Equipment	498	-	-	498	491
Intangibles	3,016	-	-	3,016	2,536
Other	51	-	-	51	119
Total Non-Current Assets	**4,497,531**	**69,755**	**155,475**	**4,722,761**	**4,788,772**
TOTAL ASSETS	**5,053,971**	**73,689**	**158,974**	**5,286,634**	**5,522,378**
CURRENT LIABILITIES					
Payables	128,204	62	87	128,353	121,706
Derivative Financial Instruments	-	-	-	-	3,374
Provision for Outstanding Claims	602,725	5,294	14,653	622,672	654,522
Other	3,331	-	-	3,331	2,366
Total Current Liabilities	**734,260**	**5,356**	**14,740**	**754,356**	**781,968**
NON-CURRENT LIABILITIES					
Provision for Outstanding Claims	3,460,019	61,814	161,844	3,683,677	3,821,540
Provision for Restoration	53	-	-	53	119
Total Non-Current Liabilities	**3,460,072**	**61,814**	**161,844**	**3,683,730**	**3,821,659**
TOTAL LIABILITIES	**4,194,332**	**67,170**	**176,584**	**4,438,086**	**4,603,627**
NET ASSETS	**859,639**	**6,519**	**(17,610)**	**848,548**	**918,751**
EQUITY					
Retained Surplus / (Deficit)	859,639	6,519	(17,610)	848,548	918,751
	859,639	**6,519**	**(17,610)**	**848,548**	**918,751**

25. FINANCIAL INSTRUMENTS

SICorp's principal financial instruments comprise of cash and cash equivalents, Bond and Hour-Glass portfolios designated as fair value through profit and loss. It also enters into derivative transactions.

The main purpose of these financial instruments is to derive income and investment gains. SICorp has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from operations.

Risk Management

SICorp has appointed NSW Treasury Corporation (TCorp), the State's central financing authority who has recognised expertise in the management of Treasury related risks, to advise on, and actively manage its asset portfolios. TCorp manages investment risk in line with the Memorandum of Understanding between itself and TCorp.

The main financial instrument risks include:

- **Interest Rate Risk**

Given that the investments are held in a pooled investment facility it is not meaningful to disclose the contractual repricing or maturity dates of the underlying assets. Investments in these facilities can be withdrawn by notice of up to 7 days (dependent upon the facility).

The following tables set out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk.

Year Ended 30 June 2007										
Financial Instruments	**Variable Interest Rate**	**Fixed interest rate maturing in:**						**Non-Interest Bearing**	**TOTAL**	**Weighted Average Effective**
		Less than 1 year	**1-2 Years**	**2-3 Years**	**3-4 Years**	**4-5 Years**	**5+ Years**			
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**%**
Financial Assets										
Cash and Cash Equivalents	99,761	-	-	-	-	-	-	-	**99,761**	6.37
Hour-Glass Investments	2,744,675	-	-	-	-	-	-	-	**2,744,675**	14.18
Receivables	-	-	-	-	-	-	-	307,522	**307,522**	-
Bond Portfolio	-	306,864	287,608	235,535	405,942	227,080	663,545	-	**2,126,574**	6.80
Derivative Assets	-	4,537	-	-	-	-	-	-	**4,537**	5.70
Total Financial Assets	**2,844,436**	**311,401**	**287,608**	**235,535**	**405,942**	**227,080**	**663,545**	**307,522**	**5,283,069**	
Financial Liabilities										
Derivative Liabilities	-	-	-	-	-	-	-	-	-	-
Payables	-	-	-	-	-	-	-	128,353	**128,353**	-
Total Financial Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**128,353**	**128,353**	

25. FINANCIAL INSTRUMENTS (continued)

Year Ended 30 June 2006										
Financial Instruments	Variable Interest Rate	Fixed interest rate maturing in: Less than 1 year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	5+ Years	Non-Interest Bearing	TOTAL	Weighted Average Effective
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%
Financial Assets										
Cash and Cash Equivalents	304,796	-	-	-	-	-	-	-	**304,796**	5.70
Hour-Glass Investments	2,252,545	-	-	-	-	-	-	-	**2,252,545**	21.53
Receivables	-	-	-	-	-	-	-	263,112	**263,112**	-
Bond Portfolio	-	308,480	189,279	283,235	324,960	632,904	958,417	-	**2,697,275**	5.62
Derivative Assets	-	1,504	-	-	-	-	-	-	**1,504**	6.06
Total Financial Assets	**2,557,341**	**309,984**	**189,279**	**283,235**	**324,960**	**632,904**	**958,417**	**263,112**	**5,519,232**	
Financial Liabilities										
Derivative Liabilities	-	3,374	-	-	-	-	-	-	**3,374**	6.06
Payables	-	-	-	-	-	-	-	121,706	**121,706**	-
Total Financial Liabilities	**-**	**3,374**	**-**	**-**	**-**	**-**	**-**	**121,706**	**125,080**	

- **Credit Risk**

The maximum credit risk exposure is best represented by the fair value of the interest in the individual investment facility at TCorp. The nature of the structure of the Hour-Glass and specialised sector facilities is such that a wide spread of risks is achieved by engaging a spread of funds managers in a specific asset sector. TCorp contracts with these managers and requires in their mandates a series of controls over concentration of assets.

For all financial instruments, the maximum credit risk is equal to the market value at balance date, which is:

	2007 $'000	2006 $'000
Bond Portfolio	2,136,270	2,700,855
Hour-Glass Facility: Investments	2,744,675	2,252,545
Hour-Glass Facility: Cash	38,514	232,601
Total	**4,919,459**	**5,186,001**

For the Bond portfolio the credit risk is spread across the following counterparties

International, Federal and State Governments	879,470	1,663,013
Banks	778,614	603,101
Corporates and Others	478,186	434,741
Total	**2,136,270**	**2,700,855**

25. FINANCIAL INSTRUMENTS (continued)

- **Currency Risk**

Investments in the TCorp Bond Portfolio facility may be denominated in currencies other than Australian Dollars. The agreement between SICorp and TCorp requires the manager to effectively hedge that currency exposure fully as and when it arises. Investments in the TCorp Specialised Sector International Shares Facility are substantially denominated in currencies other than Australian Dollars. In order to achieve a diversification of investment returns, it has been specifically agreed that those exposures will not be hedged into Australian Dollars.

All other investments are denominated in Australian Dollars and do not give rise to a currency exposure.

- **Liquidity Risk**

The liquidity of SICorp’s investments is assured by the high-credit nature of the fixed interest investments and the fact that all Hour-Glass share and property investments are required to be listed on a recognised stock exchange.

In accordance with the Memorandum of Understanding, TCorp is to consider its ability to exit the Portfolio’s holdings in an orderly manner, in the context of the aggregate holdings of each security contained in the Portfolio and the market turnover of each security.

- **Price Risk**

SICorp’s exposure to price risk is through its investments in the TCorp Hour-Glass facilities. The value of the units in this facility fluctuates as a result of changes in the Australian and international equities markets, and the Australian listed property market. SICorp engages external asset consultants to review and advises on the appropriate level of price risk exposure given the nature of the insurance liabilities that these investments cover.

SICorp has no exposure to commodity price risk.

26. COMMITMENTS FOR EXPENDITURE

	2007 $'000	2006 $'000
Operating Lease Commitments - Lessee		
- Not later than one year	336	329
- Later than one year and not later than five years	1,342	1,540
- Later than five years	287	714
	1,965	**2,583**

Operating lease commitments are inclusive of GST.

27. CONTINGENT ASSETS

The recoverable input tax credits from the operating lease commitments constitute a contingent asset of $178.5k (2006: $234.8k).

28. CONTINGENT LIABILITIES

There are no known contingent liabilities at balance date.

29. EVENTS AFTER THE BALANCE SHEET DATE

There are no events subsequent to reporting date requiring disclosure.

End of Audited Financial Report